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## **INSURANCE INDUSTRY IN THE REPUBLIC OF SERBIA - - RESULTS FOR 2013**

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 the 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. The results that are presented may be used for analysis and assessment of how successful this industry is as a whole.

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

### **1. Introduction**

Despite global and local economic revival, the development of insurance business in the Republic of Serbia is still very limited, mainly due to the impoverished economy and low life standard of its citizens. Thanks to mode-

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rate economic growth, accompanied with the reduction in inflation and more stable local currency, and followed by the reduction in aggregate demand and higher unemployment, the scope of property and personal insurance in 2013 has slightly widen, recording slightly better results.

Following negative trends in 2012, when gross domestic product (hereinafter: GDP) dropped by 1.5 percent, in 2013 it increased by 2.4 percent (Statistical Office of the Republic of Serbia, 2013, 1).

Also the consumer price index grew from 107,8 in 2012, to 111 in 2011.

The inflation increased from December 2013 compared to December 2012 by 2.3 percent. It amounted to 12.2 percent in 2012, and seven percent in 2011.

The number of employed people is lower by 1.6 percent, while the drop in 2012 amounted to 1.1 percent, and in 2011, 2.8 percent.

The average income index net of contributions was recorded in nominal amount of 105.7 compared to 109 in 2012 and 111.2 in 2011, and real amount of 98.1 compared to 101.1 in 2012 and 100.2 in 2011.

According to survey on work force carried out in April 2012, the number of unemployed people in 2013 decreased to 24.1 percent compared to 25.5 percent in 2012 and 22.2 percent in April 2011.

Less significant factors influencing insurance industry in 2013 include the amendments to laws and by-laws.

1. Subject to the Amendment to Insurance Law<sup>2</sup> the insurance company can reinsure its property in total against natural perils – hail, frost and other perils and natural perils such as earthquake, flood and drought, as well as insurance against financial losses due to weather conditions, directly with the foreign reinsurer, while the deadline for division of composite entities into those for life and those for non-life insurance has been extended to December 31, 2014.

2. The Constitutional Court of the Republic of Serbia, on meeting held on December 20, 2012, passed the Decision which states that paragraph 2 of the Article 26 of Law on compulsory traffic insurance is inconsistent with the Constitution of the Republic of Serbia. Subject to Article 168, paragraph 3, of the Constitution, this provision of Law was excluded from application as from

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<sup>2</sup> *Official Gazette of RS*, No 55/04, 70/04, 61/05, 85/05,101/07, 63/09, Decision, 107/09, 99/11, 119/12 and 116/13.

the date when this Decision was published, that is January 23, 2013.<sup>3</sup>

3. The National Bank of Serbia passed the Decision on Minimum Information System Management Standards for Financial Institutions. This Decision provides for minimum standards and conditions of stable and safe operations, relating to the management of information systems in banks, insurance companies, providers of financial leasing and voluntary pension funds management companies.<sup>4</sup>

Note: 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 (2013 = 114.6421; 2012 = 113.7183; 2011 = 104.6409), and for the data contained in the tables including the comments thereon, according to the exchange rate stated in each table.

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

The same as in the previous year, in 2013 there were 28 shareholding companies – 24 insurance companies and four reinsurance companies operating on the insurance market. In addition, the reinsurance company “Europe Re”, registered in Switzerland and providing protection against the catastrophic risks in South East Europe and Caucasus region under the World Bank project, also operates on our market. Here in Serbia the practice of reinsurance business is long, and now days it is performed by four reinsurance companies. From the position of insurance profession and insurance industry it is absolutely unnecessary, and from the point of view of the state even harmful to take out a five million dollar loan from the World Bank, which Serbia did in order to pay in a start-up capital for this company from the borrowed amount. In times when the state is looking for solutions how to privatise those insurance and reinsurance companies in which it is a majority owner, it was illogical to get even more indebted, especially under circumstances of already excessive debts, in order to take part in establishment of “Europe Re”. The fact that this company was founded in 2009, and in addition to Serbia only two other states – Albania and Macedonia – participated in its foundation, speaks for itself about the

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<sup>3</sup> *Official Gazette of RS*, No 7/2013.

<sup>4</sup> *Official Gazette of RS*, No 23/2013 and 113/2013.

purposefulness of this project<sup>5</sup>. It is very uncommon that the state founders and shareholders cannot directly influence the management of its operations, nor can they, at least in the beginning, buy shares in order to increase number of their votes. At the same time, the World Bank is exclusively authorised to select and appoint the managing bodies of "Europe Re", independent managing board, its chairman, general manager and other managers.<sup>6</sup>

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

According to the ownership structure, seven shareholding companies are owned by local owners. In two of them the state is the majority owner, and 21 companies are owned by foreign shareholders.

In 2013 there were 11,327 employees in insurance industry, compared to 11,376 in 2012 and 11,208 in 2011 (Serbian Business Registers Agency, 2013). 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), 87 companies engaging in brokerage, agency and other insurance activities. In 2012 there were 84 of them, and 79 in 2011. There were 112 persons engaged in insurance agency (natural persons entrepreneurs) compared to 105 in 2012 and 109 in 2011, and 14,457 natural persons engaged in insurance agency, or insurance brokerage, compared to 14,023 in 2012 and 13,363 in 2011.

The sales of motor third party liability insurance is performed, apart from the persons referred to in Insurance Law, also by the legal entities that subject to road traffic safety regulations perform technical inspection of motor vehicles (Law on compulsory traffic insurance, 2009, Article 44). Sales of motor third party liability policies at inspection stations is not considered insurance agency within the meaning of Insurance Law, however, this sales can be performed only by the persons employed with the inspection station and licenced for insurance agency by the National Bank of Serbia (hereinafter: NBS). Apart from companies and motor vehicle inspection stations, this line of insurance is sold by other participants on the market as well.

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5 Žarković, N.: „Znaju li drugi bolje od nas“, *Svet osiguranja* 25. 2. 2014, page 26.

6 Ilijić, S: Osvrt na odredbe Zakona o izmeni zakona o osiguranju, *Tokovi osiguranja*, page 33.

### 3. Insurance Premium

In spite of the higher domestic and international operational risks and underdeveloped insurance market, mild recovery of economic activity in 2013 has made a positive impact on insurance industry in the Republic of Serbia. That was reflected in the amount of premium, portfolio structure and other indicators of insurance and reinsurance companies operations.

**Table 1: gross premium in Euro according to the NBS mean exchange rate as at 31 December 2012 and 2013**

Code	Type of insurance	Gross premium in EUR		% of share		% of growth
		2012	2013	2012	2013	2013
01	Accident insurance	34.653.103	35.319.076	6,4	6,3	1,9
02	Voluntary health insurance	9.525.204	10.102.039	1,8	1,8	6,1
03	Motor vehicle insurance	60.921.795	56.086.612	11,3	10,0	-7,9
04	Rail vehicle insurance	1.302.658	820.623	0,2	0,1	-37,0
05	Aircraft insurance	1.166.189	824.575	0,2	0,1	-29,3
06	Vessels insurance	841.008	877.688	0,2	0,2	4,4
07	Goods-in-transit insurance	6.996.473	6.443.122	1,3	1,2	-7,9
08	Property insurance against fire and other perils	41.435.996	37.949.540	7,7	6,8	-8,4
09	Other property insurance	78.519.306	82.949.126	14,5	14,8	5,6
10	Motor vehicle liability insurance	170.001.539	170.736.989	31,5	30,6	0,4
11	Aircraft liability insurance	3.577.885	2.026.010	0,7	0,4	-43,4
12	Vessels liability insurance	117.624	120.444	0,0	0,0	2,4
13	General liability insurance	10.020.533	10.728.912	1,9	1,9	7,1
14	Credit insurance	790.497	1.696.785	0,1	0,3	114,6
15	Warranty insurance	731.835	704.244	0,1	0,1	-3,8
16	Financial losses insurance	4.548.802	6.114.726	0,8	1,1	34,4
17	Legal expenses insurance	83.135	67.637	0,0	0,0	-18,6
18	Road-side assistance insurance	10.991.890	12.354.702	2,0	2,2	12,4
19	Other types of non-life insurance	13.094	8.199	0,0	0,0	-37,4
<b>I</b>	<b>NON-LIFE INSURANCE (1-19)</b>	<b>436.238.565</b>	<b>435.931.050</b>	<b>80,7</b>	<b>78,0</b>	<b>-0,1</b>
20	Life insurance	90.634.181	108.382.837	16,8	19,4	19,6
21	Annuity insurance	4.672.722	4.599.663	0,9	0,8	-1,6
22.01	Supplementary accident insurance along with life insurance	7.734.375	8.145.263	1,4	1,5	5,3
22.02	Supplementary health insurance along with life insurance	449.101	608.136	0,1	0,1	35,4
22	Supplementary insurance along with life insurance	8.183.476	8.753.399	1,5	1,6	7,0

Code	Type of insurance	Gross premium in EUR		% of share		% of growth
		2012	2013	2012	2013	2013
24	Other types of life insurance	761.971	954.265	0,1	0,2	25,2
II	<b>LIFE INSURANCE (20 do 24)</b>	<b>104.252.350</b>	<b>122.690.164</b>	<b>19,3</b>	<b>22,0</b>	<b>17,7</b>
III	<b>TOTAL (I+II)</b>	<b>540.490.915</b>	<b>558.621.213</b>	<b>100,0</b>	<b>100,0</b>	<b>3,4</b>

Source: National Bank of Serbia, Insurance Supervision Department

Total gross premium in 2013 amounts to 558.6 million EUR compared to 540.5 in 2012 and 547.7 in 2011. It is higher by 18.1 million EUR, that is 3.4 percent, compared to its decrease by 7.2 million EUR, i.e. 1.3 percent in 2012. In 2011 the increase of 12 million EUR, or 2.2 percent, was recorded. The non-life insurance premium is lower by 0.3 million EUR, or 0.1 percent compared to reduction of 16 million EUR, that is 3.5 percent in 2012. The increase of 5.1 million EUR, or 1.1 percent was recorded in 2011. The share of non-life insurance premium in total earned premium has been gradually decreasing, from 82.6 percent in 2011, and 80.7 percent in 2012 to 78 percent in 2013. At the same time, the share of life premium increased from 17.4 percent in 2011, and 19.3 percent in 2012 to 22 percent in 2013.

What is noticeable is that the share of motor vehicle insurance (motor-hull and motor third party liability) in total premium has been going down for years, from 247.4 million EUR or 45.2 percent in 2011 and 230.9 million or 42.7 percent in 2012 to 226.8 million EUR or 40.6 percent in 2013. Viewed per types of insurance, the highest share, however with the tendency of gradual decrease, has been recorded by the motor third party liability insurance, specifically 30.6 percent compared to 31.8 in 2012 and 32.6 in 2011<sup>7</sup>. Life insurance is the second with 19.4 percent compared to 16.8 percent in 2012 and 14.4 percent (2011), other property insurances with 14.8 percent compared to 14.5 percent in 2012 and 14.4 (2011), motor-hull insurance 10 percent compared to 11.3 percent in 2012 and 12.5 percent (2011), property insurance against fire 6.8 percent compared to 7.7 percent in 2012 and 2011, and accident insurance 6.3 percent compared to 6.4 percent in 2012 and 6.8 percent (2011). All other types of non-life insurance accounted for 9.5 percent share compared to 9.4 percent in 2012 and 8.6 percent in 2011, and all other types of life insurance accounted

<sup>7</sup> The share of motor liability insurance in 2010 amounted to 33.3 percent, and in 2009 it was 39.9 percent.

for 2.6 percent share, compared to 2.5 percent in 2012 and 2.3 percent in 2011.

*Non-life insurance premium* amounts to 435.9 million EUR compared to 436.2 in 2012 and 452.2 million EUR in 2011, and motor vehicle insurance (motor-hull and motor-liability) accounts for 52 percent compared to 52.9 percent in 2012 and 54.7 percent in 2011<sup>8</sup>. The second position with 19 percent compared to 18 percent in 2012 and 17.4 percent in 2011 is held by other property insurances. The next comes property insurance against fire and other perils with 8.7 percent compared to 9.5 percent in 2012 and 9.3 percent in 2011 and personal accident insurance with 8.1 percent compared to 7.9 percent in 2012 and 8.2 percent in 2011. Added to motor vehicle insurance, this amounts to 383 million EUR or 87.8 percent, compared to 385.5 million EUR or 88.4 percent in 2012 and 405.2 million EUR or 89.6 percent in 2011 out of total non-life insurance premium. Similar to the previous year, very small amount of premium and low share in premium was recorded for compulsory vessels liability insurance, legal expenses insurance and other types of non-life insurance. Compared to the previous year the growth of premium was achieved for ten types of insurance towards thirteen in 2012 and ten types of insurance in 2011, and drop of premium for nine types of insurance compared to six in 2012 and nine types of insurance in 2011. Increase higher than ten percent was achieved for three types of insurance, 114.6 percent for credit insurance, 34.4 percent for financial loss insurance and 12.4 percent for roadside assistance insurance, compared to four types of insurance in 2012, 362.6 percent for financial loss insurance, 157 percent for aircraft insurance, 111.5 percent for voluntary health insurance and 111 for roadside assistance insurance. The highest decrease of 43.4 percent was recorded for aircraft liability insurance, compared to 9.5 percent for rail vehicle insurance in 2012, and 37.4 percent for other types of insurance, compared to 7.7 percent in 2012 for credit insurance, 37 percent for motor hull insurance, compared to 6.9 percent in 2012 for vessels insurance and 29.3 percent for aircraft insurance, compared to six percent in 2012 for other types of non-life insurance.

*Life insurance premium* amounts to 122.7 million EUR, compared to 104.3 in 2012 and 95.5 million EUR in 2011. It increased by 18.4 million EUR, that is 17.7 percent, compared to 8.8 million EUR or 9.2 percent in 2012 and 6.9

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<sup>8</sup> In 2009 and 2010 motor vehicle insurance premium amounted to 269.2 or 250.5 million EUR, i.e. 56.5 percent, or 56 percent of all other types of non-life insurance premium.

million EUR or 7.7 percent in 2011<sup>9</sup>. The biggest part – 108.4 compared to 90.6 in 2012 and 95.5 million EUR in 2011 is for life insurance, which accounts for 88.3 percent compared to 86.9 percent in 2012 and 87 percent in 2011 of total life insurance premium. Significantly lower share of 7.1 percent, compared to 7.8 percent in 2012 and 7.6 percent in 2011 was recorded for supplementary insurance along with life insurance, and 3.7 percent compared to 4.5 percent in 2012 and 5 percent in 2011 (annuity insurance) and 0.8 percent compared to 0.7 percent in 2012 and 0.4 percent in 2011 (other types of life insurance). The growth of life insurance premium of 17.7 percent compared to 9.2 percent in 2012 and 7.7 percent in 2011 is due to the increase of 25.2 percent compared to 109.3 percent in 2012 and 683.3 percent in 2011 for other types of life insurance, 7 percent compared to 12.3 percent in 2012 and 8.7 percent in 2011 for supplementary insurance along with life insurance, and 19.6 percent compared to 9.1 percent in 2012 and 7.9 percent in 2011 (life insurance) and drop in premium of 1.6 percent compared to 1.4 percent in 2012 and 2.6 percent in 2011 for annuity insurance.

*Earned gross premium* of all types of life and non-life insurance in 2013 amounts to 556.2 million EUR, compared to 533.6 in 2012 and 548.7 million EUR in 2011.

Relative to total population and GDP calculated by the Statistical Office of the Republic of Serbia for 2013, the earned insurance premium per capita is 78 compared to 75 in 2012 and 77 EUR in 2011, while premium share in GDP is 1.8 percent, the same amount as in the last two years.

#### **4. Distribution of Insurance Premium**

The distribution of insurance premium shall be governed by the Rules on the maximum expense loading rates which represent the business policy act and therefore the subject matter of NBS supervision (Insurance Law, 2004, Article 149, paragraph 1, item 2).

*Expense loading* amounts to 118.3 million EUR compared to 114.5 in 2012 and 115.2 million EUR in 2011, or 21.2 percent in 2012 compared to 21

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<sup>9</sup> Calculated in Dinars, total premium increased by 4.2 percent as a result of substantial increase of life insurance premium by 18.6 percent and much less increase of non-life insurance premium by 0.7 percent.



percent in 2011 of total gross premium. In life insurance types 21.2 million EUR were allocated compared to 18.6 in 2012 and 16.7 million EUR in 2011, or 17.3 percent compared to 17.8 and 17.5 percent, while in non-life insurance types 97.1 million EUR compared to 96 in 2012 and 98.5 million EUR in 2011, that is 22.3 percent compared to 21.2 percent in 2012 and 21.8 percent amounting to in 2011. The highest amount – 42.2 percent - of expense loading is allocated for roadside assistance insurance compared to 42.6 percent in 2012 and 39.5 percent in 2011, the amount which was allocated for this type of insurance, and 37.1 percent for financial losses insurance, compared to 35.2 percent in 2012 and 32.3 percent in 2011 for credit insurance, while the lowest amount – 1.8 percent – compared to 0.4 percent in 2012 and 0.8 percent in 2011 was allocated for the aircraft liability insurance.

*Loss prevention funds* are used for taking measures aimed at prevention and minimisation of risks which may harm persons and property. They are deducted only from non-life insurance premium in the amount of 6.5 compared to 6.9 in 2012 and 7 million EUR in 2011, or at average rate of 1.5 percent compared to 1.6 percent in 2012 and 1.5 percent in 2011. The maximum – 2 percent of loss prevention funds – has been allocated for motor liability insurance, the same as in the last two years, and minimum – 0.1 percent - compared to the same amount in 2012 and 0.4 percent in 2011 for roadside assistance insurance. The loss prevention funds have not been allocated for aircraft liability insurance and legal expenses insurance, the same as in the previous two years. Out of total loss prevention funds, 87.5 percent compared to 87.4 in 2012 and 86.9 percent in 2011 is for motor hull insurance, property insurance against fire and other perils, other property insurances and motor third party liability insurance.

*Technical premium* (gross premium reduced by expense loading and loss prevention loading) amounts to 433.9 million EUR, compared to 419.1 in 2012 and 425.5 million EUR in 2011, that is 77.7 percent compared to 77.5 percent in 2012 and 77.7 percent in 2011<sup>10</sup>. The major part of technical premium 76.6 percent compared to 80.7 and 81.5 percent refer to non-life insurance types, while 23.4 percent compared to 19.3 in 2012 and 18.5 percent in 2011 refer to life insurance types. It is necessary to point out that this is not a real earned technical premium, and it would amount so only if the administrative costs were equal to expense loading. Since the bigger part of premium is used

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<sup>10</sup> In 2009 and 2010 the technical premium amounted to 73.2 percent and 74.1 percent of gross premium.

for administrative costs than for calculated expense loading, the real technical premium (gross premium reduced by administrative costs and loss prevention loading) amounts to 331.8 million EUR compared to 308.9 in 2012 and 312.2 million EUR in 2011. This should be borne in mind because administrative costs are carried in balance sheet of insurance company and they have huge impact on calculation of loss ratio and financial result of insurance business.

## 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. It is established by the ratio of the number of carried forward outstanding incurred and reported claims (hereinafter: OIRC) in the end of the previous year, reported, cancelled and repudiated claims (hereinafter: Can and Rep), settled claims in the course of the year and outstanding, incurred and reported, claims in the end of the current year.

**Table 2: reported, settled and outstanding incurred and reported claims in EUR at mean exchange rate of NBS as at 31 December 2013**

Code	Type of insurance	OIRC 2012	Number of claims 2013.				Average in EUR	
			Reported	Rep & Can	Paid	OIRC	Paid	OIRC
01	Accident insurance	2.390	79.459	14.588	65.103	2.158	344	821
02	Voluntary health	477	80.587	4.940	75.062	1.062	96	162
03	Motor vehicle insurance	8.330	70.367	5.989	64.987	7.721	648	784
04	Rail vehicle insurance	26	421	119	299	29	615	5.278
05	Aircraft insurance	5	4	3	3	3	114.871	61.382
06	Vessels insurance	29	106	31	76	28	6.084	4.018
07	Goods-in-transit insurance	114	1.138	62	1.125	65	1.587	17.524
08	Property, fire and other perils	492	8.048	1.844	6.306	390	2.508	13.125
09	Other property insurances	1.327	76.389	11.831	64.463	1.422	590	3.126
10	Motor liability insurance	13.860	57.568	7.180	51.376	12.872	1.537	5.077
11	Aircraft liability insurance	2	0	0	1	1	0	1.579
12	Vessels liability insurance	0	1	0	1	0	0	0
13	General liability	1.009	5.218	1.253	3.838	1.136	861	2.871
14	Credit insurance	25	442	86	314	67	1.631	958
15	Warranty insurance	220	907	18	736	373	303	264

## Insurance Industry in the Republic of Serbia - Results for 2013

Code	Type of insurance	OIRC 2012	Number of claims 2013.				Average in EUR	
			Reported	Rep & Can	Paid	OIRC	Paid	OIRC
16	Financial losses insurance	39	917	317	604	35	654	8.058
17	Legal expenses insurance	3	2	0	2	3	1.095	1.963
18	Roadside assistance insurance	1.685	37.650	2.992	35.091	1.252	160	634
19	Other non-life insurance	0	1	0	1	0	270	0
<b>I</b>	<b>NON-LIFE (1 TO 19)</b>	<b>30.033</b>	<b>419.225</b>	<b>51.253</b>	<b>369.388</b>	<b>28.617</b>	<b>589</b>	<b>3.110</b>
20	Life insurance	550	29.589	679	27.827	1.633	1.024	1.056
21	Annuity insurance	3	1.378	0	1.379	2	1.402	519
22	Supplementary along with life insurance	696	5.436	2.126	3.368	638	634	1.381
24	Other types of life insurance	9	722	1	730	0	753	0
<b>II</b>	<b>LIFE (20 to 24)</b>	<b>1.258</b>	<b>37.125</b>	<b>2.806</b>	<b>33.304</b>	<b>2.273</b>	<b>995</b>	<b>1.147</b>
<b>III</b>	<b>TOTAL (I+II)</b>	<b>31.291</b>	<b>456.350</b>	<b>54.059</b>	<b>402.692</b>	<b>30.890</b>	<b>622</b>	<b>2.966</b>

The number of repudiated and cancelled claims have not been included in the calculation of average.  
Source: National Bank of Serbia, Insurance Supervision Department.

In 2013 the number of all categories of claims increased compared to 2012, except the number of outstanding, incurred and reported claims at the end of the year. The number of filed claims increased by 7.4 percent compared to 3.4 percent in 2012 compared to drop of 0.05 percent in 2011. Cancelled and repudiated claims increased by 2.2 percent compared to 10.8 percent in 2012 and 7.3 percent in 2011, paid claims by 7.3 percent compared to 3.3 percent in 2012 and 1.4 percent in 2011, while the number of outstanding incurred and reported claims at the end of 2013 is reduced by 1.3 percent compared to reduction of 9.1 percent in 2012 and increase of 0.2 percent in 2011.

Out of 456,350 reported claims, 91.9 percent compared to 93.1 percent in 2012 and 94 percent in 2011 are subject matter of non-life insurance, and 8.9 percent, 6.9 percent in 2012 and 6 percent in 2011 are subject matter of life insurance. Out of 54,059 cancelled and repudiated claims, 94.8 percent fall under non-life insurance, compared to 96 percent, which was their amount in the last two years; 5.2 percent fall under life insurance, compared to 4 percent in the last two years.

Out of 419,225 reported claims for non-life insurance – 19.2 percent compared to 16.2 percent in 2012 is for voluntary health insurance, 19 percent compared to 20.3 percent for accident, 18.2 percent compared to 17.8 percent for other property insurance, 16.8 percent compared to 18.2 percent for motor-

hull, 13.7 percent compared to 14.3 percent for motor vehicle liability insurance and 9 percent compared to 8.4 percent in 2012 for roadside assistance insurance. Their sum accounts for 95.9 percent compared to 95.2 percent in 2012 and 95.7 percent in 2011 of the total reported claims for all types of non-life insurance.

Out of 37,125 reported claims for life lines, 79.7 percent compared to 77.6 percent in 2012 and 77.3 percent in 2011 is for life assurance, 14.6 percent to 17.9 percent in 2012 and 18.9 percent in 2011 for supplementary insurance along with life insurance, 3.7 percent compared to 3.1 percent in 2012 and 3.6 percent in 2011 for annuity insurance, and 1.9 percent compared to 1.4 percent in 2012 and 0.2 percent in 2011 for other lines of life insurance.

Out of 487,641 claims that were in the process of adjustment in 2013 compared to 459,314 in 2012 and 445,308 in 2011, 456,751 or 93.7 percent were adjusted compared to 428,023 or 93.2 percent in 2012 and 410,873 or 92.3 percent in 2011. 402,692 or 88.2 percent were settled and paid compared to 375,148 or 87.6 percent in 2012 and 363,164 or 88.4 percent in 2011, while 54,059 or 11.8 percent were cancelled and repudiated, compared to 52,875 or 12.4 percent in 2012 and 47,709 or 11.6 percent in 2011. The highest number of cancelled and repudiated claims have been recorded for lines of insurance with the highest number of reported claims, except for life insurance, where supplementary insurance along with life insurance is the first. Similar trends can be found in the number of paid claims. Out of all paid claims, 91.7 percent are non-life insurance claims, and 6.3 percent life insurance claims, compared to 93.8 percent and 6.2 percent in 2012 and 93.2 percent and 6.8 percent in 2011.

*The average paid claim* is calculated without cancelled and repudiated claims for compensation. In 2013 the average amount was 622 EUR, compared to 634 in 2012 and 682 in 2011, as a result of reduction in average life insurance claim to 995 EUR compared to 1,041 in 2012 and 963 EUR in 2011, and the reduction in non-life insurance average amount to 589 EUR, compared to 602 in 2012 and 664 in 2011. The average paid claim decreased by 1.9 percent (life 4.5 percent and non-life 2.2 percent), compared to decrease of 7 percent (life 8.1 percent – increase, and non-life 9.3 percent – decrease) in 2012 and increase of 2.6 percent (life – 34.7 percent and non-life 0.4 percent) which was recorded in 2011.<sup>11</sup>

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<sup>11</sup> This average amount does not include cancelled and repudiated claims for indemnity.

The highest average amount for non-life insurance of 114,871 EUR compared to 16,981 in 2012 and 28,246 EUR in 2011 was recorded for aircraft insurance, followed by 18,998 EUR for vessels liability insurance, compared to 5,533 EUR for this line of insurance in 2012 and 8,520 EUR in 2011 for credit insurance, 6,084 EUR for vessels insurance, compared to 2,391 EUR in 2012 for property insurance against fire and other perils and 3,794 EUR in 2011 for vessels liability insurance, 2,508 EUR for property insurance against fire and other perils, compared to 2,056 EUR in 2012 for credit insurance and 3,614 EUR in 2011 for vessels insurance, and 1,631 EUR for credit insurance compared to 1.681 EUR in 2012 for goods-in-transit and 3,096 EUR in 2011 for legal expenses insurance.

The lowest average amount of paid non-life insurance claims of 96 EUR was recorded for voluntary health insurance, compared to 97 EUR in 2012 for other non-life insurance lines and 121 EUR for voluntary health insurance in 2011, followed by 160 EUR for roadside assistance insurance, compared to 99 EUR in 2012 and 198 EUR in 2011 for voluntary health insurance, 270 EUR for other non-life insurance lines, compared to 161 EUR in 2012 and 208 EUR in 2011 for roadside assistance insurance, and 303 EUR for warranty insurance, compared to 316 EUR in 2012 and 337 EUR in 2011 for accident insurance.

The highest average amount of paid life insurance claims of 1,402 EUR was recorded for life assurance, compared to 1,382 EUR in 2012 for annuity insurance and 1,355 EUR in 2011 for other life insurance lines. The lowest average amount of 634 EUR is for supplementary insurance along with life insurance, compared to 664 EUR in 2012 and 679 EUR in 2011 for this line of insurance.

*Claim reserve* comprises incurred reported and incurred unreported claims. The average amount of outstanding incurred reported claims is calculated based on the number of claims in Table 2 and amount of outstanding claims set out in Table 3. The insurance companies declare them subject to the number of received claims and assessment of the amount of indemnity. Outstanding incurred but not reported claims are most often declared in the approximated amount in the manner stipulated by the business policy acts of each insurance company.

In the end of 2013 the provision was made for 30,890 incurred reported claims for indemnity which accounts for 6.3 percent of total annual claims, compared to 31,291 or 6.8 percent in 2012 and 34,435 or 7.7 percent in 2011. Majority of or 92.6 percent of claims refer to non-life insurance, compared to 96 percent in 2012 and 97.1 percent in 2011, while 7.4 percent refer to life insuran-

ce lines, which is much higher than 4 percent in 2012 and 2.9 percent in 2011. The biggest number of outstanding non-life insurance claims is for motor vehicle insurance 72 percent (45 percent for MTPL and 27 percent for motor hull) compared to 73.9 percent (46.2 percent MTPL and 27.7 percent motor hull) in 2012 and 74.4 percent (45.4 percent MTPL and 29 percent motor hull) in 2011, while for life insurance lines, 71.8 percent of claim refer to life insurance, compared to 43.7 percent in 2012 and 38 percent in 2011, and 28.1 percent refer to supplementary insurance along with life insurance, compared to 55.3 percent in 2012 and 61.9 percent in 2011. This reduction in the number of outstanding claims compared to the last two years was mainly due to the external control by the NBS initiated in the beginning of 2010. This control comprised also the adjustment of small MTPL claims. In the end of 2013, the provision was made for 12,872 MTPL claims, which is less than 13,860 in 2012 and 15,196 for which the reserve was established in the end of 2011.

The average amount of outstanding incurred reported claims under life and non-life insurance lines was 2,996 EUR (1,147 EUR for life, and 3,110 EUR for non-life), compared to 2,994 EUR in 2012 (life 1,871 and non-life 3,041 EUR) and 3,006 EUR in 2011 (life 2,295 and non-life 3,027 EUR). The highest average amount for non-life insurance lines of 61,382 EUR was recorded for aircraft insurance, compared to 67,637 EUR in 2012 and 55,399 EUR in 2011 for this type of insurance. The second average amount is goods-in-transit insurance with 17,524 EUR, compared to 17,614 EUR in 2012 for aircraft liability insurance and 36,692 EUR in 2011 for fire and other perils insurance. The third is property insurance against fire and other perils with the average amount of 13,125 EUR, compared to 15,886 EUR in 2012 for the same type of insurance and 6,194 EUR in 2011 for credit insurance. The lowest average amount of 162 EUR was recorded for voluntary health insurance, compared to 232 EUR in 2012 for financial losses insurance and 244 EUR in 2011 for warranty insurance. The highest average amount among life insurance lines of 1,381 EUR was recorded for supplementary insurance along with life insurance, compared to 2,655 EUR in 2012 and 3,560 EUR 2011 for life assurance, and the lowest average amount of 519 EUR was recorded for annuity insurance, compared to 956 EUR in 2012 and 239 EUR in 2011 for this line of insurance.

**Table 3: settled and reserved claims 31.12.**

Code	Settled claims*			Reserved claims*		
	2012	2013	Index	2012	2013	Index
01	21.179.590	22.412.438	105,8	9.195.152	9.218.210	100,3
02	5.878.350	7.221.065	122,8	1.513.776	1.733.927	114,5
03	42.925.694	42.103.285	98,1	12.489.784	11.873.352	95,1
04	263.458	183.850	69,8	184.078	200.668	109,0
05	16.981	344.612	2029,4	371.919	318.626	85,7
06	309.862	462.413	149,2	201.260	209.286	104,0
07	2.628.970	1.785.758	67,9	1.257.133	1.261.910	100,4
08	15.854.942	15.818.081	99,8	9.740.358	6.374.779	65,4
09	31.881.518	38.060.058	119,4	7.430.880	9.254.175	124,5
10	79.549.123	78.956.518	99,3	141.220.349	137.873.608	97,6
11	0	0	0,0	35.394	1.745	4,9
12	1.231	18.998	1543,2	308	4.736	1538,9
13	2.549.053	3.303.551	129,6	4.882.372	5.077.925	104,0
14	1.420.510	512.264	36,1	309.422	182.237	58,9
15	135.739	222.902	164,2	110.316	153.059	138,7
16	89.827	394.715	439,4	20.911	318.984	1525,4
17	466	2.189	469,8	7.413	7.624	102,8
18	5.085.593	5.619.751	110,5	1.586.869	1.964.601	123,8
19	193	270	139,8	35	52	148,8
<b>I</b>	<b>209.771.101</b>	<b>217.422.718</b>	<b>103,6</b>	<b>190.557.729</b>	<b>186.029.504</b>	<b>97,6</b>
20	24.102.875	28.505.924	118,3	1.483.402	1.724.986	116,3
21	1.267.105	1.933.182	152,6	2.919	1.038	35,6
22	2.285.648	2.134.704	93,4	1.541.379	1.464.855	95,0
24	349.275	549.606	157,4	7.782	0	0,0
<b>II</b>	<b>28.004.903</b>	<b>33.123.416</b>	<b>118,3</b>	<b>3.035.483</b>	<b>3.190.878</b>	<b>105,1</b>
<b>III</b>	<b>237.776.004</b>	<b>250.546.134</b>	<b>105,4</b>	<b>193.593.212</b>	<b>189.220.382</b>	<b>97,7</b>

\* In EUR counter value at the NBS mean exchange rate at each year end.

Source: National Bank of Serbia, Insurance Supervision Department.

Settled claims with costs including investigation, assessment, settlement and payment, subrogation entitlements, court expenses and fees, expert's survey and other costs, including claims from accepted coinsurance, amount to 250.5 million EUR compared to 237.8 in 2012 and 247.7 million EUR in 2011. The non-life insurance lines account for 217.4 million EUR, compared to 209.8 in 2012 and 226 million EUR in 2011, while life insurance accounts for 33.1 million EUR, compared to 28 in 2012 and 21.7 million EUR in 2011. The amount of total

paid indemnities is higher by 5.4 percent, as a result of growth in non-life insurance claims by 3.6 percent and growth in life insurance claims by 18.3 percent, compared to drop of 4 percent in 2012, as a result of growth in life insurance of 29 percent and drop in non-life insurance of 7.2 percent. The highest increase of settled claims by 20 times was recorded for aircraft insurance, compared to 1.8 times in 2012 for insurance against fire and other perils, and 5.4 times in 2011 for credit insurance, while the biggest drop was recorded by 63.9 percent for credit insurance compared to 10 percent in 2012 and 3.5 percent in 2011 for the amount of aircraft insurance claims.

The biggest share of settled non-life insurance claims, in the amount of 55.7 percent compared to 58.4 percent in 2012 and 61 percent in 2011 is accounted for by motor vehicle insurance. Observed per types of insurance, the first is motor third party liability with 36.3 percent compared to 37.9 percent in 2012 and 39.3 percent in 2011, followed by motor hull insurance with 19.4 percent compared to 20.5 percent in 2012 and 21.7 percent in 2011, other property insurance 17.5 percent compared to 15.2 percent in 2012 and 15.7 percent in 2011. Accident insurance amounts to 10.3 percent compared to 10.1 percent in 2012 and 9.7 percent in 2011, property insurance against fire is 7.3 percent compared to 7.6 percent in 2012 and 3.9 percent in 2011, the sum total of which is 90.8 percent compared to 91.2 percent in 2012 and 90.3 percent in 2011, and for all other types of insurance it is 9.2 percent compared to 8.2 percent in 2012 and 9.7 percent in 2011.

*Consequential losses* paid for through the contributions to the guarantee fund amounted to 8.4 million EUR compared to 7.2 in 2012 and 8.4 million EUR in 2011. Their share in the amount of paid claims of all types of compulsory liability insurance in traffic is 10.6 percent compared to 9.1 percent in 2012 and 9.4 percent in 2011, or 4.8 percent compared to 4.1 percent in 2012 and 4.6 percent in 2011 of gross insurance premium. According to the data of Serbian Insurance Association, the paid indemnities tend to decline, which is indicative of the necessity to reduce the contribution to the guarantee fund in a way that is defined under the Law on compulsory traffic insurance and that there were no grounds for its increase which took place in the beginning of 2014.

The highest share of settled claims for indemnity per lines of life insurance business was recorded for life assurance – 86.1 percent compared to 86.1 in 2012 and 84.8 percent in 201, for supplementary insurance along with



life insurance in the amount of 6.4 percent compared to 8.1 percent in 2012 and 9.8 percent in 2011. All other lines of life insurance had the share of claims of 7.5 percent, compared to 5.8 percent in 2012 and 5.4 percent in 2011.

*Provision for outstanding life and non-life insurance claims* amounts to 189.2 million EUR compared to 193.4 in 2012 and 200.3 million EUR in 2011. The non-life insurance claims account for 98.3 percent compared to 98.4 percent in 2012 and 98.6 percent in 2011, while life insurance claims account for 1.7 percent compared to 1.6 percent in 2012 and 1.4 percent in 2011.

The highest share in outstanding non-life insurance claims is recorded by motor vehicle insurance with 80.5 percent (74.1 percent MTPL and 6.4 percent motor hull), compared to 80.7 percent in 2012 (74.1 percent MTPL and 6.6 percent motor hull) and 77.4 percent in 2011 (70.2 percent MTPL and 7.2 percent motor hull). Viewed per lines of business, the first is motor third party liability insurance, and the second is motor hull insurance. The third and fourth are, with 5 percent respectively, other property insurance, compared to 3.9 percent in 2012 and 4.6 percent in 2011, and personal accident insurance compared to 4.8 percent in 2012 and 6 percent in 2011. The fifth is fire insurance with 3.4 percent, compared to 5.1 percent in 2012 and 7 percent in 2011. All other types of non-life insurance account for 6.1 percent compared to 5.5 percent in 2012 and 5 percent in 2011.

The highest share of outstanding life insurance claims is accounted for by life assurance – 54.1 percent, compared to 48.9 percent in 2012 and 46 percent in 2011. The next is supplementary insurance along with life insurance with 45.9 percent compared to 50.8 percent in 2012 and 54 percent in 2011, while all other life insurance lines account for 0 percent compared to 0.3 percent in 2012 and 0 percent in 2011.

*Outstanding incurred and reported claims* in the end of 2013 amounted to 91.6 million EUR, which is less than 93.7 in 2012 and 103.5 million EUR in 2011, that is 48.4 percent in 2012 and 51.7 percent in 2011 of total outstanding claims. The highest share – 97.2 percent compared to 97.5 percent in 2012 and 97.8 percent in 2011 belongs to non-life insurance, and only 2.8 percent compared to 2.5 percent in 2012 and 2.2 percent in 2011 belongs to life insurance.

The highest share of outstanding incurred reported claims of non-life insurance in the amount of 80.2 percent (73.4 percent MTPL and 6.8 percent motor hull) is accounted for by the motor vehicle insurance compared to 79.4 percent in 2012 (72.5 percent MTPL and 6.9 percent motor hull) and 73.2

percent in 2011 (65.1 percent MTPL and 8.1 percent motor hull). Observed per lines of business, the first is motor third party liability, and the second is motor hull insurance. The third is fire insurance with 5.8 percent, compared to 8.6 percent in 2012 and 12.1 percent in 2011, the fourth is other property insurance with 5 percent compared to 3.8 percent in 2012 and 7.4 percent in 2011, while the fifth is general liability insurance with 3.7 percent compared to 3.6 percent in 2012 and 2.5 percent in 2011. All other non-life insurance lines account for 5.3 percent compared to 4.6 percent in 2012 and 4.8 percent in 2011.

In respect of the amount of outstanding incurred reported claims in life business, the first is life assurance with 66.2 percent compared to 62 percent in 2012 and 58.9 percent in 2011, the second is supplementary insurance along with life insurance with 33.8 percent, compared to 37.5 percent in 2012 and 41.9 percent in 2011, while other lines of life insurance account for 0 percent, compared to 0.5 percent in 2012 and 0.01 percent in 2011.

*Outstanding incurred but not reported claims* amount to 97.6 million EUR compared to 99.9 in 2012 and 96.7 million EUR in 2011, that is 51.6 percent in 2012 and 48.3 percent in 2011 of total outstanding claims. The highest share – 99.4 percent compared to 99.3 percent in 2012 and in 2011 belongs to non-life insurance, and 0.6 percent compared to 0.7 percent in 2012 and in 2011 belongs to life insurance lines.

Within non-life insurance lines, the highest share of 80.7 percent compared to 81.8 percent in 2012 and in 2011 was recorded by motor vehicle insurance (74.7 percent compared to 75.5 percent and 75.6 percent – MTPL and 6 percent compared to 6.3 percent and 6.2 percent – motor hull insurance). The next is accident insurance with 7.7 percent, compared to 7.5 percent in 2012 and in 2011, while other property insurance recorded share of 5 percent compared to 4 percent in 2012 and 4.4 percent in 2011; general liability insurance accounted for 1.9 percent, compared to 2 percent in 2012 and 1.6 percent in 2011, while all other non-life insurance lines accounted for 4.7 percent, the same amount as in the last two years.

Within life insurance lines, all outstanding incurred but not reported claims belong to supplementary insurance along with life insurance, compared to 96.6 percent in 2012 and 100 percent in 2011.

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

established based on business policy acts of insurance companies in accordance with the Decisions by NBS regulating the specific criteria and manner of calculating certain types of technical provision in insurance<sup>12</sup>.

**Table 4: technical provision in EUR as of 31.12.2012 and 31.12.2013**

No.	Description	2012		2013		Index 2013/2012
		Amount	%	Amount	%	
1	Unearned premium life	1.753.860	0,2	1.951.185	0,2	111,3
2	Unearned premium non-life	178.288.815	23,9	181.055.049	22,3	101,6
3	Total unearned premium	180.042.676	24,1	183.006.234	22,6	101,6
4	Outstanding claims life	3.035.483	0,4	3.190.878	0,4	105,1
5	Outstanding claims non-life	190.557.729	25,5	186.029.504	22,9	97,6
6	Total outstanding claims	193.593.212	25,9	189.220.382	23,3	97,7
7	Risk equalisation reserves for non-life insurance	27.421.400	3,7	29.863.061	3,7	108,9
8	Mathematical reserve for life	345.270.489	46,3	409.058.967	50,4	118,5
9	Total technical provision	746.327.777	100,0	811.148.644	100,0	108,7

Source: National Bank of Serbia, Insurance Supervision Department

Total technical provision amounts to 811.1 million EUR compared to 746.3 in 2012 and 707.6 million EUR in 2011. Unearned premium amounts to 183 million EUR, compared to 180 in 2012 and 188.2 million EUR in 2011, which is 22.6 percent compared to 24.1 percent in 2012 and 26.6 percent in 2011 of total amount of all types of technical reserve. Outstanding claims amounts to 189.2 million EUR, compared to 193.6 in 2012 and 200.3 million EUR in 2011, that is 23.3 percent compared to 25.9 percent in 2012 and 28.3 percent in 2011, and risk equalisation reserve amount to 29.9 million EUR compared to 27.4 in 2012 and 26.1 million EUR in 2011, or 3.7 percent in the last two years. Mathematical reserve for life insurance amounts to 409.1 million EUR compared to 345.3 in 2012 and 293.1 million EUR in 2011, or 50.4 percent compared to 46.3 percent in 2012 and 41.4 percent in 2011 of total technical reserve. The part that was formed in 2013 amounts to 63.8 million EUR compared to 52.2 in 2012 and 50.5 million EUR in 2011.

<sup>12</sup> Decision on specific criteria and manner of calculating unearned premiums; Decision on specific criteria and manner of calculating outstanding claims; Decision on specific criteria and manner of calculating risk equalisation reserves; and Decision on specific criteria and manner of calculating mathematical reserves and profit sharing reserves.

## **6. Coinsurance and Reinsurance**

Total premium ceded to coinsurance and reinsurance amounts to 64.6 million EUR compared to 65.8 in 2012 and 67.9 million EUR in 2011, that is 11.6 percent compared to 12.2 percent in 2012 and 12.4 percent in 2011 of total gross insurance premium. The bigger amount of 96.7 percent belongs to non-life insurance, while 3.3 percent is for life business. 14.3 percent of gross insurance premium is provided for coverage of coinsured and reinsured non-life risks, while in case of life risks this amount is 1.7 percent. The highest part of coinsurance and reinsurance premium of 37.2 percent has been allocated for coverage of other property insurance, 21.4 percent for property insurance against fire, 11.4 percent for motor hull insurance, 7.2 percent for general liability insurance and 7 percent for MTPL, which make up in total 84.2 percent; for all other lines of non-life insurance, 15.8 percent of total coinsurance and reinsurance premium has been allocated. The bigger part of 64.6 percent of premium ceded to coinsurance and reinsurance belongs to supplementary insurance along with life insurance, and 35.6 percent to life assurance.

The participation of ceded coinsurance and reinsurance in settled claims of insurance amounts to 23.4 million EUR compared to 42 in 2012 and 22.9 million EUR in 2011, that is 10.1 percent compared to 17.7 percent in 2012 and 9.2 percent in 2011. The same as with the premium, the bigger part of 22.8 million EUR or 97.3 percent refers to non-life business, and 0.6 million EUR or 2.7 percent to life business. The highest share of ceded coinsurance and reinsurance in settled claims without costs is 32 percent and it is for property insurance against fire, 25.2 percent for motor hull insurance, 20.8 percent for other property insurance and 7.2 percent for MTPL. In total, this is 90.1 percent, while for all other non-life insurance lines it is 9.9 percent. In case of life insurance lines, the share of 77 percent in settled claims belongs to supplementary insurance along with life, and 23 percent to life assurance.

## **7. Achieved Results**

An insurance company is obliged to make financial statements and annual statement of operations subject to the Law, using the chart of accounts and contents of the accounts in the chart of accounts in accordance with NBS

regulations.<sup>13</sup> The results of operations are observed starting from the analysis of financial statements and other data in several ways used in analysis of company operations, however, some additional indicators specific only for insurance industry are analysed due to distinctiveness of insurance business. In the following part of this paper we will present the results of operations of all insurance companies in the country using data on ratios, technical result and profit or loss.

### 7.1. Ratios and Technical Result

*Ratios* in financial statements are used in analysis of company operations, however, due to distinctiveness of insurance business some additional ratio indicators characteristic only for operations and solvency of insurance companies are also analysed.

**Table 5: ratios and technical result 31.12.2013.**

Line of ins.	Ratios			Combined		Technical result*			
Code	Expense loading	Admin. costs	Losses	With exp. loading	With admin. costs	Amount of expense loading	% of expense loading	Amount of admin. costs*	% admin. costs
01	30,8	41,1	66,4	97,3	107,6	1.179.462	95,0	-2.591.484	113,0
02	32,8	41,4	77,3	110,1	118,7	-906.011	113,8	-1.812.840	132,1
03	23,5	37,8	65,9	89,5	103,8	4.935.630	88,7	-3.887.042	111,2
04	17,1	33,9	21,1	38,2	55,0	524.511	27,8	357.195	36,1
05	4,6	38,9	35,2	39,8	74,1	487.404	37,6	194.302	60,2
06	28,4	38,9	53,0	81,4	91,9	145.741	76,4	45.624	91,2
07	22,2	38,8	27,0	49,2	65,8	3.218.329	35,5	2.076.397	46,0
08	20,7	39,4	32,7	53,4	72,1	17.253.164	41,9	9.827.072	55,9
09	22,6	40,1	48,9	71,5	89,0	22.630.011	63,8	7.689.014	83,9
10	18,2	39,7	53,2	71,4	92,8	45.552.240	66,5	7.758.910	92,1
11	1,3	28,5	0,7	1,9	29,1	2.437.187	0,7	1.657.191	1,1
12	24,3	40,0	22,3	46,6	62,3	62.629	29,7	43.006	38,1
13	21,5	40,8	34,0	55,4	74,8	4.681.247	42,9	2.587.603	57,6

<sup>13</sup> Rules on the content and layout of financial statement forms for insurance companies (*Official Gazette RS* No 3/2009, 7/2009 and 5/2010) and Rules on the chart of accounts and contents of the accounts in the chart of accounts for insurance companies (*Official Gazette RS*, No 15/2007 and 3/2009).

Line of ins.	Ratios			Combined		Technical result*			
	Code	Expense loading	Admin. costs	Losses	With exp. loading	With admin. costs	Amount of expense loading	% of expense loading	Amount of admin. costs*
14	58,5	72,9	25,1	83,7	98,0	416.208	35,7	270.707	46,0
15	31,5	44,6	42,8	74,3	87,4	190.977	58,3	103.832	72,0
16	59,7	63,5	18,2	77,9	81,7	1.994.224	25,8	1.801.268	27,8
17	17,5	38,8	3,6	21,0	42,4	53.785	4,4	38.572	6,0
18	42,3	39,6	48,8	91,2	88,4	1.070.061	84,9	1.307.493	82,1
19	33,0	39,5	3,5	36,5	43,0	5.129	5,3	4.532	6,0
<b>I</b>	<b>22,5</b>	<b>39,8</b>	<b>52,0</b>	<b>74,5</b>	<b>91,9</b>	<b>105.931.928</b>	<b>68,0</b>	<b>27.471.352</b>	<b>89,1</b>
20	17,3	39,5	84,8	102,1	124,3	843.913	99,1	-24.104.769	137,3
21	16,7	39,5	112,4	129,0	151,8	-1.334.754	134,8	-2.420.067	188,1
22	19,4	40,0	25,5	44,8	65,4	4.780.260	31,5	2.927.656	42,9
23	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
24	7,2	39,5	65,5	72,7	104,9	260.280	70,6	-54.939	109,6
<b>II</b>	<b>17,3</b>	<b>39,5</b>	<b>81,5</b>	<b>98,9</b>	<b>121,1</b>	<b>4.549.699</b>	<b>95,5</b>	<b>-23.652.119</b>	<b>132,4</b>
<b>III</b>	<b>21,3</b>	<b>39,8</b>	<b>58,6</b>	<b>79,9</b>	<b>98,3</b>	<b>110.481.626</b>	<b>74,4</b>	<b>3.819.233</b>	<b>98,8</b>

\*Based on the data from 2013 annual report, at the mean NBS exchange rate as at 31.12.2013, administrative costs are allocated per lines of insurance proportionately to the gross insurance premium. For codes 01, 10, 11 and 12, the contribution to guarantee fund and the contribution to Serbian Insurance Association for execution of its public duties are included in claims, and for code 10 the contribution to National Health Insurance Fund is included as well.

Source: National Bank of Serbia, Insurance Supervision Department

Expense loading ratio in 2013 amounts to 21.3 percent (17.3 percent for life and 22.5 percent for non-life) compared to 21.5 percent in 2012 (17.9 percent for life and 22.3 percent for non-life) and 21 percent (17.5 percent for life and 21.7 percent for non-life), administrative costs ratio is 39.8 percent (39.5 percent and 39.8 percent), compared to 41.5 percent in 2012 (41.1 percent and 41.6 percent) and 41.6 percent in 2011 (41.7 percent and 41.6 percent), and loss ratio is 58.6 percent (81.5 percent and 52 percent), compared to 44.6 percent in 2012 (26.9 percent and 48.8 percent) and 45.1 percent in 2011 (22.8 percent for life and 49.9 percent for non-life).

Combined expense loading and loss ratio amounts to 79.9 percent (98.9 percent life and 74.5 percent non-life), compared to 66 percent in 2012 (44.6 percent and 71.2 percent) and 66.2 percent in 2011 (40.3 percent for life and 71.6 percent for non-life).

Combined administrative costs and loss ratio is much less favourable, it

amounts to 98.3 percent (121.1 percent for life and 91.9 percent for non-life), compared to 86.1 percent in 2012 (68 percent and 90.4 percent) and 86.8 percent in 2011 (64.5 percent for life and 91.5 percent for non-life).

*Administrative costs* reduced by the commission from reinsurance and retrocessions in the amount of 12,865,823 EUR, compared to 12,713,741 in 2012 and 12,598,428 EUR in 2011 amount to 224,922,631 EUR or 40.3 percent, compared to 221,510,865 EUR or 41 percent in 2012 and 228,503,262 EUR or 41.7 percent in 2011 of the total gross premium.

*The amount of expense loading in the administration costs* is 52.6 percent, compared to 51.7 percent in 2012 and 50.4 percent in 2011, which indicates that the costs have been cut, but it is still far below the necessary full coverage of administrative costs by expense loading. The disproportion between expense loading and administration costs is constant, especially in motor third party liability insurance, having in mind its participation in total insurance premium, expense loading and administration costs which are limited for this line of business. If administration costs are increased, it is necessary to increase the expense loading, however only to certain extent, because inappropriately high expense loading may question the reasonableness and meaning of insurance. This should be kept in mind by the insurers and the NBS in its capacity of supervisory body, and also by the legislator, especially when administrative costs are significantly higher than expense loading in the long period of time.

*Technical result* 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. It serves 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. It is very suitable as a corrective factor, because the insurer has the data for its calculation at his disposal almost at any time.

*Technical result without reinsurance and outwards coinsurance with expense loading* amounts to 11.4 million EUR, compared to 105.8 in 2012 and 131.4 million EUR in 2011, or 75.1 percent compared to 74.5 percent in 2012 and 69.2 percent in 2011<sup>14</sup>. In case of non-life insurance it amounts to 105.9

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<sup>14</sup> NBS, Insurance Sector in Serbia, annual report for 2013, technical result of self-retained premium is 70.4 percent, compared to 71.4 percent in 2012 and 67.8 percent in (National Bank of Serbia, 2013, 18).

million EUR, compared to 109.9 in 2012 and 123.2 million EUR in 2011, that is 68 percent, compared to 66.7 percent in 2011 and 64.5 percent in 2011, while in case of life insurance it is 4.5 million EUR, compared to negative result of 4.1 in 2012 and positive result of 8.2 million EUR in 2011, that is 95.5 percent, compared to 104.8 percent in 2012 and 89.5 percent in 2011.

In the past two years, positive technical result was realised for all types of non-life insurance, except the negative result of 906.011 EUR in 2013. and 30.998 EUR in 2012 for voluntary health insurance, compared to positive result for all lines of insurance in 2011.

In case of life insurance, positive result was realised of 4.8 million EUR, compared to 3.7 million EUR in 2012 for supplementary insurance along with life insurance, 0.8 compared to 5 million EUR in 2012 for life assurance and 0.3 compared to 0.1 million EUR for other lines of life insurance; only in case of annuity insurance the negative result was recorded of 1.3 compared to 2.9 million in 2012.

Technical result with expense loading as the indicator of price policy and adequacy or sufficiency of premiums confirms that the premium system of all insurance lines, except for voluntary health insurance and annuity insurance, is sufficient for covering liabilities arising from insurance contracts, administrative costs up to the limit of calculated expense loading and other obligations in accordance with the Law.

*Technical result with administrative costs*, which are declared in the profit and loss account of the company and assuming they are allocated per lines of insurance proportionately to the amount of gross premium, amount to 3.8 million EUR, compared to negative result of 1.1 million EUR in 2012 and positive result of 18.2 million in 2011, that is 98.8 percent, compared to 100.4 percent in 2012 and 94.2 percent in 2011. Tariff systems are insufficient for coverage of liabilities arising from insurance contracts, administrative costs and other obligations in accordance with the Law in case of accident (113.0 percent compared to 111 percent), voluntary health insurance (132.1 percent compared to 148.5 percent), annuity insurance (188.1 percent compared to 249 percent) and other life insurance lines (109.6 percent in 2013 compared to 121.5 percent in 2012).



## 7.2. Realised Profit

In spite of objective circumstances and hampered conditions in which business operations were performed, the insurance industry as a whole recorded the moderate growth of insurance premium, however the financial result was negative. Net loss in 2013 had much worse impact than the profit made in the previous two years.

**Table 6: financial results in EUR value at the NBS mean exchange rate as of 31.12.**

Year	Description	Net profit		Net loss		Net profit-Net loss	
		Amount	No ad	Amount	No ad	Amount	No ad
2011	Insurance	15.037.418	11	13.216.629	12	1.820.789	23
	Reinsurance	3.512.260	4	0	0	3.512.260	4
	<b>Total</b>	<b>18.549.678</b>	<b>15</b>	<b>13.216.629</b>	<b>12</b>	<b>5.333.049</b>	<b>27</b>
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
	<b>Total</b>	<b>21.533.781</b>	<b>18</b>	<b>10.258.604</b>	<b>10</b>	<b>11.275.177</b>	<b>28</b>
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
	<b>Total</b>	<b>19.444.584</b>	<b>16</b>	<b>19.821.828</b>	<b>12</b>	<b>- 377.244</b>	<b>28</b>

Source: National Bank of Serbia, Insurance Supervision Department

All insurance and reinsurance companies made net loss in the amount of 377,244 EUR, compared to net profit of 11.3 million EUR in 2012 and 5.3 million EUR in 2011. Total net loss amounts to 658,589 EUR, as the result of profit made in non-life business of 2,139,170 EUR and loss made in life business of 2,797,759 EUR. Life insurance profit consists of profit made by compulsory motor third party liability insurance, which amounts to 23,477,858 EUR and loss made by all other non-life insurance lines of 21,338,688 EUR.

Net reinsurance profit amounts to 281,345 EUR, as a result of profit made by three companies in the amount of 1,357,625 EUR and loss made by one reinsurance company in the amount of 1,076,280.

Net loss of insurance companies relative to the gross insurance premium amounts to 0.15 percent, compared to profit of 1.4 percent in 2012 and 1 percent in 2011, and relative to fixed and other capital it is 0.31 percent, compared to 3.6 percent in 2012 and 1.7 percent in 2011.

More favourable results have been recorded by reinsurance companies. Their net profit relative to reinsurance premium amounts to 0.4 percent, compared to 6.6 percent in 2012, and relative to fixed and other capital it is 1.2 percent, compared to 16.9 percent in 2012.

## **8. Conclusion**

Despite a moderate growth of insurance portfolio in 2013, the financial results were negative, while ratios and technical result were mostly stagnate or showing moderately negative trends. Technical result with expense loading was positive for all lines of non-life insurance, except for voluntary health insurance, and for all lines of life insurance, except for annuity insurance where the result was negative. If we take technical result with administrative costs as an indicator of insurance price, premium systems are insufficient for coverage of losses and other liabilities subject to the Law in the area of non-life insurance lines for accident, voluntary health insurance and motor hull insurance, and in the area of life insurance lines for life assurance, annuity insurance and other lines of life insurance.

The insurance market in Serbia have for many years recorded large share of compulsory insurance of liability in traffic, especially in the non-life insurance portfolio. Gross premium of compulsory motor third party liability insurance, aircraft insurance and vessels insurance amounts to 31 percent of total premium, compared to 32.1 percent in 2012 and 33.1 percent in 2011, and relative to non-life insurance premium it is 39.7 percent, compared to 39.8 percent in 2012 and 40.1 percent in 2011. Its share in total settled claims amounts to 31.5 percent, compared to 33.5 percent in 2012 and 35.9 percent in 2011, and relative to the amount of non-life insurance claims it is 36.3 percent, compared to 37.9 percent in 2012 and 39.3 percent in 2011. Significantly high share has been recorded in outstanding claims for compensation – even 72.9 percent compared to 73 percent in 2012 and 69.2 percent in 2011, and relative to the amount of non-life insurance claims it was 74.1 percent, amounting the same in 2012 and 70.2 percent in 2011.

Out of total gross premium of compulsory traffic insurance 98.8 percent, compared to 97.9 percent in 2012 and 98.6 percent in 2011 belong to motor third party liability insurance, while the share of settled and outstanding claims is 100 percent, the same as in the last two years. In total insurance operations, compulsory traffic insurance has very high share, and the highest share was recorded

by motor third party liability insurance. This should be kept in mind both because of the big volume of operations and because our motor third party liability insurance has not yet been fully harmonised with a couple of very important European standards.

The results achieved indicate that the insurance industry in 2013 has come into rather unfavourable position. Administrative costs have substantially reduced the technical result, which was reflected in the unfavourable financial result.

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