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1.

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ABBREVIATIONS

CASCO	Owner's own damage
CR	Claims ratio
EU	European Union
FSAP	Financial Sector Assessment Program
GPW	Gross premium written
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LR	Liquidity ratio
MTPL	Motor third-party liability insurance
NBS	National Bank of Serbia
NPW	Net premium written
PLR	Premium leverage ratio
PRR	Premium retention ratio
RR	Receivables ratio
SMR	Solvency margin ratio
SRD	Dinar
TRR	Technical reserves ratio
WTO	World Trade Organization

PREFACE

The Serbian insurance sector remains small and underdeveloped. With consumption of €76 and €10 per capita for non-life and life insurance, respectively, Serbia lags behind most of its neighbors in Southeastern and Central Europe. Over the last three years, the Serbian insurance market experienced very little growth in real terms. In 2009 the industry accounted for only 4.6 percent of total assets and 5.6 percent of total capital in the Serbian financial sector. Due to the impact of the economic crisis, the industry is likely to experience an 8 percent contraction (in real terms), as the total gross premium written in the second quarter of the year remained unchanged relative to the same quarter of 2008. Despite the lack of real growth, the Serbian insurance sector is well capitalized relative to its overall net risk exposure. During the last few years, the quality of the industry's balance sheet has improved considerably, as shown by the growing share of highly liquid assets and declining share of receivables relative to total assets. Despite a small deterioration in underwriting performance in 2009, the industry managed to keep its overall underwriting losses and expenses below the annual intake of premiums. The matters still outstanding include (a) adoption of comprehensive pro-growth measures to stimulate the real growth of the sector; (b) the final settlement of €80 million of unpaid claims inherited from bankrupt motor third-party liability insurers in 2004–05; (c) privatization of Dunav; (d) liberalization of the local reinsurance market; and (e) separation of life and non-life parts of the business.

I. Overall Assessment

A. Market Overview

1. **The Serbian insurance sector remains small and underdeveloped.** Over the last three years, the market experienced very little growth in real terms mainly due to weak economic growth, premium payment difficulties in the industrial sector, which forced many corporate policyholders to cancel their insurance, and fierce price competition among the growing number of players (17 insurers in 2005 compared with 25 in 2009). With consumption of €76 and €10 per capita for non-life and life insurance, respectively, Serbia lags behind most of its neighbors in Southeastern and Central Europe. In 2009 the industry accounted for only 4.6 percent of total assets and 5.6 percent of total capital in the Serbian financial sector. Although in 2008 the total gross premium written (GPW) for both life and non-life was SRD 52.2 billion (dinars), representing a 5.3 percent annual inflation-adjusted increase over the previous year (17 percent growth in nominal terms), in 2009 the sector is likely to experience an 8 percent contraction (in real terms) due to the impact of the economic crisis.

2. **In 2009 the share of life and non-life insurance in total premium was 10.9 and 89.1 percent, respectively**, with motor third-party liability insurance (MTPL) and motor CASCO (owners' own damage) insurance constituting the largest share of the total non-life premium: 30.4 and 13.9 percent, respectively. The share of voluntary property insurance in total GPW declined from 33.2 percent in 2008 to 27.9 percent in 2009 due to the impact of the economic crisis on household disposable income. By the middle of 2009, there were 25 insurance companies in the Serbian insurance market, out of which 18 were foreign owned. With completion of the sale of DDOR to Fondiaria (Italy), Dunav remains the only state-owned insurance company in the market, accounting for less than 28 percent of GPW.

B. Financial and Underwriting Performance of the Sector

3. **The Serbian insurance sector is well capitalized relative to its overall net risk exposure.** During the last few years, the quality of the industry's balance sheet has improved considerably, as shown by the growing share of highly liquid assets and declining share of receivables relative to total assets. Despite a small deterioration in underwriting performance in 2008 (relative to 2006), in 2008 and the second quarter of 2009 the industry managed to keep its overall underwriting losses and expenses below the annual intake of premiums.

4. **As shown in Table 1, the Serbian insurance industry has been fully compliant with the solvency capital requirements set forth by the National Bank of Serbia (NBS) insurance regulations**, which are modeled after the European Union (EU) Solvency I Directive. From 2005 to 2009, the solvency ratio of the sector was close to 200 percent. In 2008–09, however, the ratio dropped slightly below 200 percent due to a combination of the additional solvency requirements introduced by the NBS and the decreased value of insurers' assets due to the financial crisis. The solvency ratio was considerably higher for larger insurance companies.

5. **The premium leverage ratio (PLR), defined as the quotient of net premium written (NPW) and available surplus capital, is a measure of the adequacy of the industry's surplus capital.** A premium leverage ratio of 1.7–1.9, as observed in the Serbian market (compared with 2.5–3.0 internationally) demonstrates a rather healthy capital safety margin.

Table 1. Key Indicators of Insurance Sector Performance, 2006–09

%

Ratio	2006	2007	2008	2009 (II)
Premium retention ratio (NPW/GPW)	92.0	92.0	92.0	88.0
Claims performance ratio (outstanding/total claims)	7.6	7.1	7.2	—
Claims ratio	75.0	79.5	77.9	—
Combined ratio	97.6	99.7	97.1	—
Receivables ratio (receivables/total assets)	14.3	12.7	11.8	14.3
Liquidity ratio (cash and short-term investment/total assets)	36.3	39.3	39.1	37.9
Market solvency margin ratio (surplus capital/required solvency I capital)	206.0	211.0	173.0	186.0
Largest five companies	245.0	252.0	202.0	223.0
Smallest five companies	154.0	182.0	116.0	144.0
Premium leverage ratio (NPW/surplus capital)	1.7	1.7	1.9	1.9
Non-life technical reserves ratio (technical reserves/NPW)	63.0	70.0	76.0	—

Source: Based on NBS data, 2009.
— Not available.

6. **The extent to which technical insurance reserves can cover claims is another indicator of the industry's ability to manage unexpected volatility of technical results.** One measure of adequate reserving is the technical reserves ratio (TRR). The higher is the TRR, the better equipped is the industry to address unexpected adverse claims performance. Over time, the TRR should converge with the insurers' claims ratio. Due to a new methodology for computing technical reserves, which was introduced by the NBS in 2007, the Serbian market experienced a considerable jump in the TRR ratio, from 63 percent in 2006 to 76 percent in 2008. This can be viewed as a robust development.

7. **During 2006–08, the industry considerably reduced the size of its receivables relative to total assets.** In 2008 receivables accounted for only 11.8 percent of total assets, owing to the considerably improved market discipline introduced by NBS through a special regulation on the treatment of receivables that is more stringent in this regard than the International Accounting Standards (IAS) rules.

8. **Over the last three years, the overall liquidity position of the sector also improved considerably.** In 2008, 39.1 percent of insurers' assets were held in highly liquid high-quality assets. The overall underwriting performance of the sector, as measured by the loss and combined ratios, was also satisfactory.

9. **Because the Serbian regulatory requirements prohibit direct placements of reinsurance with foreign companies, the insurers' net risk retention is unusually high by international standards.** In 2008, for instance, more than 92 percent of GPW was retained by insurers compared with 50–60 percent in more developed markets. Due to the fact that, until recently, reinsurance placements could be effected only through Dunav Re, which effectively operates as a fronting company for foreign reinsurers, the Serbian insurers appeared to be

reluctant to incur additional intermediation fees without gaining direct access to highly rated reinsurers.

C. Insurance Regulation

10. **The robust state of the insurance sector can be attributed largely to the quality of Serbia's regulatory and legal framework for insurance supervision and its vigorous enforcement by the NBS Insurance Supervision Department.** The department currently employs 42 staff, which, given the number of insurance and brokerage companies operating in the market, is a testimony to their high productivity. The key responsibilities of the NBS Insurance Supervision Department include (a) regulatory policy work comprising preparation and issuance of insurance directives and by-laws; (b) off-site supervision; (c) on-site supervision, (d) licensing of market participants; and (e) consumer protection.

11. **Since 2005, the NBS has withdrawn insurance licenses from 17 insolvent insurance companies (almost 50 percent of the total), issued 23 new by-laws and six guidance papers, and provided technical assistance to the government with the preparation of two key insurance laws.** The NBS also introduced licensing requirements for insurance agents (128 institutional licenses were revoked and 154 new licenses were issued), improved market transparency, commenced pro-active on-site and off-site market supervision, and created a consumer protection unit. The NBS strategic plan for 2006–09 envisages a progressive evolution from compliance-based to risk-based supervision. The first stage in this plan involves the introduction of an early-warning system to allow the NBS to intervene in companies' affairs before cases of financial or managerial weakness become irreversible.

D. Outstanding Issues

12. **Several matters are still outstanding.** These include (a) adoption of comprehensive pro-growth measures to stimulate the real growth of the sector; (b) settlement of €80 million of unpaid claims inherited from bankrupt MTPL insurers in 2004–05; (c) privatization of Dunav; (d) liberalization of the local reinsurance market; and (e) separation of life and non-life parts of the business.

E. Recommendations

Risk-based Supervision

13. **The NBS would do well to start preparing for the early adoption of risk-based supervision envisaged under the Solvency II regime.** By adopting a risk-based solvency framework, the industry may be able to reduce significantly both its own risk capital and the premiums for Serbian consumers without compromising the credit quality of the insurance coverage.

Tax Incentives for Non-life Insurance

14. **Given the lack of real growth in the insurance sector, we recommend, at least temporarily, eliminating the 5 percent tax currently levied on non-life insurance premiums.** The intention is to lower the cost of coverage for Serbian consumers.

Tax Incentives for Life Insurance

15. **To boost the growth of the life insurance industry, the NBS jointly with the government should consider introducing favorable tax treatment for life insurance premiums.** At the very least, life insurance premiums for long-term savings products should receive the same tax treatment as that extended under the current pension legislation to voluntary pension schemes (the so-called third pension pillar). Additional policy measures in this regard may include making employers' contributions to employees' group life insurance plans fully tax deductible (up to a certain limit), enabling policyholders to deduct their life premium contributions from taxable income or to receive a tax credit for a percentage of life premium paid on filing annual tax returns.

Simplification of Licensing Requirements for Life Insurance Agents

16. **The NBS should review the current employment requirements for life insurance agents and instead require agents to be affiliated with a life insurance company or an agency.** This would be in lieu of full-time employment required under the current legislation. The measure would boost considerably the penetration of life insurance products.

Development of New Catastrophic Risk Insurance Products

17. **The NBS and the government should consider policy measures to boost the demand for catastrophic insurance coverage in the country.** Despite being heavily exposed to floods and quakes, less than 10 percent of homeowner policies include catastrophic insurance coverage, leaving millions of Serbian homeowners and the government financially vulnerable to natural disasters. Such measures could include making catastrophic insurance coverage compulsory for all mortgage borrowers residing in disaster-prone areas.

Consumer Education Campaign

18. **The NBS jointly with government may consider devising a public education campaign to publicize the benefits of insurance.** This is intended to raise the level of insurance awareness among Serbian consumers.

Funding of MTPL Claims

19. **As the new MTPL Law calls for creating a new Guarantee Fund (in addition to the existing Guarantee Fund, which will remain in the runoff), it becomes essential for the NBS and the government of Serbia to ensure adequate continuous funding for the liabilities of both funds.** This may include industry contributions, a temporary surcharge on all future MTPL insurance policies that would be earmarked for the Guarantee Fund, and, possibly, government contributions to the fund in the future.

Privatization of Dunav

20. **Although current market conditions may not be ripe for either the full-scale privatization of the company or a sale of a strategic stake in it, the government should make a clear commitment to the privatization of Dunav**. Over the next three years the government should initiate the necessary technical pre-privatization work and commence the process of divesting Dunav's non-core business assets.

Liberalization of the Domestic Reinsurance Market

21. **The government jointly with NBS should review the current reinsurance requirements with a view to introducing a broader scope for competition among local and international reinsurers.** This should be done in anticipation of Serbia's joining the World Trade Organization (WTO).

Separation of Life and Non-life Insurance

22. **The separation of life and non-life insurance should be considered an immediate policy priority and implemented in accordance with the announced timetable.**

II. CURRENT STATE OF THE SERBIAN INSURANCE MARKET

23. **Since 2005, the year of the last Financial Sector Assessment Program (FSAP) of the Serbian insurance industry, the insurance sector has experienced little real growth and remains small and underdeveloped.** In 2009 the industry accounted for only 4.6 percent of total assets and 5.6 percent of total surplus capital (equity) of the Serbian financial sector. With consumption of €76 and €10 per capita for non-life and life insurance, respectively, Serbia lags behind most of its neighbors in Southeastern and Central Europe (see Table 2).

Table 2. Gross Premium Written per Capita, 2008

€

Country	Non-life	Life
Serbia	76	10
Bosnia and Herzegovina	43	13
Croatia	219	81
Hungary	169	181
Romania	91	22
Bulgaria	103	18

Source: Serbian Insurance Association, 2009.

24. **The low level of insurance penetration in Serbia is primarily the result of protracted economic stagnation in 2005–08.** This was followed by a considerable economic decline in 2009 due to the impact of the global economic crisis (see Appendix A for country comparisons). In addition, for a long time, the development of the sector was hindered by the lack of effective

insurance supervision, low disposable incomes of the Serbian population, poor record of claims performance of the industry, and the dominance of socially-owned companies, which stifled the competition.

25. **In 2008 the total GPW for both life and non-life insurance was SRD 52.2 billion, representing a 5.3 percent annual inflation-adjusted increase (17 percent growth in nominal terms).** In 2009, however, due to the impact of the economic crisis, the industry is likely to experience an 8 percent contraction (in real terms), as the total GPW in the second quarter of the year remained unchanged relative to the same quarter of 2008. Once inflation is taken into consideration, the Serbian insurance market has been stagnant at best over the last five years, mainly because of premium payment difficulties in the industrial sector, which have forced many corporate policyholders to cancel their insurance. In addition, due to fierce competition among the growing number of industry players (17 insurers in 2005 compared with 25 in 2009) on the price of coverage, the average premium rates have declined significantly, which reduced the volume of premiums for the market as a whole.

26. **As shown in Table 3, the share of life and non-life insurance in the total premium was 10.9 and 89.1 percent, respectively, while MTPL and CASCO insurance comprised the largest share of the total premium (30.4 and 13.9 percent, respectively)**. Although the share of voluntary property insurance in total GPW has increased somewhat from 24.7 percent in 2008 to 27.9 percent in 2009, this increase should be considered in the context of an overall drop in the volume of gross property premium written and smaller number of personal property insurance policies (against fire and other perils) due to the impact of economic crisis on household disposable income.

Table 3. Gross Premium Written, by Business Line, 2006–09

%

Business line	2006	2007	2008	2009[a]
MTPL	32.3	32.1	31.7	30.4
CASCO	12.8	14.7	16.2	13.9
Other non-life	14.8	15.7	15.3	14.7
Property	29.5	26.5	24.7	27.9
Life	10.6	11.0	12.2	13.1

Source: NBS data, 2009.
a. As of June 30.

27. **In 2008 the total number of insurance policies issued increased 6.8 percent compared to 2007, as shown on Table 4.** Most of this growth, however, can be attributed to MTPL and CASCO insurance, which together account for about half of the increase in the number of policies. At the same time, in 2008 the number of property insurance policies issued was 19 percent below that in 2007. The number of property insurance policies is expected to decline further in 2009 from the already very low base of 118,422, which is equivalent to about 4 percent of all dwellings in the country. Only a very small percentage of the fire policies issued include coverage for catastrophic perils, such as flood or earthquake, leaving almost 99 percent of Serbian households without essential insurance coverage.

28. **By the end of 2009, 25 insurers were operating in the market; of these, 18 were foreign owned.** In the second quarter of 2009, there were also 66 insurance brokerage and agent firms and 8,190 individual licensed insurance agents. In addition to independent insurance agents, the insurance industry employs around 12,000 people, which makes it, by far, the biggest employer in the Serbian financial sector.

29. **In 2008 the insurance sector's total revenues increased 25.2 percent to SRD 61.239 billion, total assets increased 20.1 percent to SRD 84.807 billion, and net profit rose 48.9 percent to SRD 2.146 billion, with 15 insurers reporting profits and nine ending the year in the red.** With completion of the sale of DDOR to Fondiaria (Italy), Dunav remains the only socially-owned insurance company in the market, accounting for less than 28 percent of gross insurance premium written.

Table 4. Number of Policies Issued, by Business Line, 2006–08

		Number of policies			Share of total (%)		
Code	Type of insurance	2006	2007	2008	2006	2007	2008
01	Accident insurance	354,709	334,818	359,036	12.3	10.5	10.5
03	Motor insurance	159,304	208,593	248,435	5.5	6.5	7.3
08	Property insurance against fire and other perils	102,821	146,511	118,422	3.6	4.6	3.5
09	Other property insurance	288,234	312,570	315,814	10.0	9.8	9.2
10	Motor vehicle liability insurance	1,734,829	1,858,972	1,928,897	60.1	58.0	56.3
	Other types of non-life insurance	249,071	342,091	452,642	8.6	10.7	13.2
	Total non-life insurance	2,888,968	3,203,555	3,423,246	100.0	100.0	100.0

Source: NBS data, 2009.
Note: As of December 31.

30. **Although in the past, two state-owned companies accounted for more than 60 percent of GPW, with the recent privatization of DDOR and the increasing competition in the market, market concentration is becoming less and less pronounced.**

31. **The Serbian insurance sector appears to be adequately capitalized relative to its overall risk exposure**. As indicated by the growing share of highly liquid high-quality assets relative to total assets, over the last few years the quality of the industry's balance sheet has visibly improved. Despite a small deterioration in the overall quality of underwriting performance in 2008 (relative to 2006), the industry appears to be keeping its overall underwriting losses and expenses below its annual premium intake.

III. Assessment of Financial and Underwriting Performance

32. **Since 2005, the government and NBS have made visible progress in reforming the insurance sector.** This has resulted in improved claims and underwriting performance and

enhanced quality of insurers' balance sheets. Table 5 presents a summary of the industry's key indicators.

A. Financial Strength

33. **To determine the financial strength of the Serbian insurance sector we have devised five key ratios**. These are the solvency margin ratio, leverage ratio, technical reserves ratio, receivables ratio, and liquidity ratio. In this section we summarize our analysis for each of these key ratios.

Table 5. Key Indicators of Insurance Sector Performance, 2006–09

%

Ratio	2006	2007	2008	2009 (II)
Premium retention ratio (NPW/GPW)	92.0	92.0	92.0	88.0
Claims performance ratio (outstanding/total claims)	7.6	7.1	7.2	—
Claims ratio	75.0	79.5	77.9	—
Combined ratio	97.6	99.7	97.1	—
Receivables ratio (receivables/total assets)	14.3	12.7	11.8	14.3
Liquidity ratio (cash and short-term investment/total assets)	36.3	39.3	39.1	37.9
Market solvency margin ratio (surplus capital/required solvency I capital)	206.0	211.0	173.0	186.0
Largest five companies	245.0	252.0	202.0	223.0
Smallest five companies	154.0	182.0	116.0	144.0
Premium leverage ratio (NPW/surplus capital)	1.7	1.7	1.9	1.9
Non-life technical reserves ratio (technical reserves/NPW)	63.0	70.0	76.0	—

Source: Based on NBS data, 2009.
— Not available.

Solvency

34. **The solvency margin ratio (SMR) is defined as the quotient of total available surplus capital and capital required by the NBS.** It is the most important of all financial indicators because it determines the compliance of insurers with the existing statutory solvency requirements. Insurers' compliance with the solvency margin requirements is closely monitored by the NBS through off-site and on-site supervision. As shown in Table 5, the Serbian insurance industry has been in full compliance with the solvency capital requirements set forth by the NBS insurance regulations, which are modeled after the European Union Solvency I Directive.[2] From 2005 to 2009, the solvency ratio of the sector was close to 200 percent. In 2008–09, however, it dropped below 200 percent due to the additional requirements for solvency capital introduced by

1.

[2] See Article 122 of the Serbian Insurance Law (*Official Gazette* no. 55/04) and the Decision of NBS on the Manner of Determining the Level of Solvency Margin, April 2005.

the NBS and the reduced value of insurers' assets due to the financial crisis. In addition, the SMR is considerably higher for larger insurance companies than for smaller ones.

Leverage

35. **The premium leverage ratio is the quotient of net premium written and available surplus capital.** The PLR approximates the amount of insurer's own capital available to back every unit of retained premium (i.e., NPW is a measure of insurer's risk exposure). The higher is the premium leverage ratio, the less financially stable is the insurance industry. For insurance portfolios consisting predominantly of non-volatile business lines, a PLR of 2–2.5 is generally viewed as robust. Since very few property policies in Serbia have catastrophic risk endorsements and most industrial and aviation risk is reinsured, a PLR of 1.7–1.9 in the Serbian market demonstrates a rather healthy capital safety margin. Nevertheless, given the expected drop in the value of insurers' assets due to the impact of the crisis and rather high net risk retentions by local insurers, we would like to encourage the NBS to monitor the PLR in 2009–10 closely for signs of possible deterioration.

Technical Reserves

36. **The technical reserves ratio, defined as the quotient of technical reserves (loss reserves plus losses incurred but not reported) and NPW, is another indicator of the industry's ability to manage unexpected volatility in its annual technical results.** The higher is the TRR, the better equipped is the industry to address unexpected adverse claims performance. Over time, the TRR is expected to converge with the insurers' claims ratio. As shown in Table 5, due to a new methodology for computing technical reserves introduced by the NBS in 2007, the Serbian market experienced a considerable jump in the TRR ratio, from 63 percent in 2006 to 76 percent in 2008. This increase in the TRR is another sign of healthy development of the Serbian insurance market.

Receivables

37. **The receivables ratio (RR), defined as a percentage of receivables in total assets, indicates the ability of insurers to collect insurance premiums on time.** The RR also indicates the quality of insurers' assets and the reliability of their solvency margin calculations. The higher is the RR, the worse is the quality of the insurers' balance sheet. Table 5 shows considerable improvement in the RR of the Serbian insurance industry in 2006–08, which in the past suffered from sizable overdue receivables from state and socially -owned enterprises. In 2008 receivables accounted for only 11.8 percent of total industry assets due to the considerably improved market discipline introduced by the NBS through a special regulation that imposed a more stringent treatment of overdue receivables than that prescribed by the IAS rules.

Liquidity

38. **The liquidity ratio (LR) is defined as a percentage of highly liquid assets (cash plus short-term bank deposits and money market instruments) in total assets.** The ratio indicates the ability of the industry to stay solvent regardless of adverse developments in capital market liquidity and to pay claims within the statutory time frame. Table 5 shows that, over the last three

years, the LR of the Serbian insurance market has improved considerably. In 2008, 39.1 percent of insurers' assets were held in highly liquid assets.

B. Underwriting Performance

39. **The main value added of the insurance sector lies in its ability to generate profit for its shareholders by providing insurance coverage against numerous insurable risks.** To describe the underwriting performance of the Serbian insurance industry, we rely on three key ratios: the claims ratio, combined ratio, and claims performance ratio.

Claims Ratio

40. **The claims ratio (CR), defined as the quotient of incurred claims and earned technical premium (earned premium net of expenses), measures the level of industry's underwriting performance, adequacy of risk pricing, and hence the overall ability of the company to generate value added for its shareholders.** The higher is the ratio, the worse is the underwriting performance of the industry. In 2006–08, the CR rose gradually from 75 percent in 2006 to 78 percent in 2008, indicating a slight deterioration in the underwriting performance of the sector. This effect can be attributed mainly to an increase in the number of players in the market—from 17 in 2006 to 24 in 2008. Nevertheless, at the current level, the CR should be deemed acceptable, as long as the industry manages to keep a tight lid on its overall expenses. Such control appears to be less and less likely due to the intensifying competition for the MTPL business through ever-growing agents' commissions, which are paid in ever more ingenious ways in circumvention of current NBS regulations.

Table 6. Claims Ratio, 2006–08

Code	Type of insurance	2006	2007	2008
01	Accident insurance	108.17	94.69	88.24
03	Motor insurance	105.87	103.16	98.00
08	Property insurance against fire and other perils	41.12	36.49	46.79
09	Other property insurance	88.47	87.10	68.88
10	Motor vehicle liability insurance	70.12	87.75	87.32
	Total	74.95	79.53	77.90

Source: NBS data, 2009.
Note: Based on losses and earned technical premium. As of December 31.

41. **CASCO and MTPL insurance, which account for half of GPW, have the worst claims ratios: 98 and 87.3 percent, respectively (see Table 6).** With a claims ratio of 46.8 percent, property insurance was by far the best-performing business line in the period.

Combined Ratio

42. **The combined ratio is defined as the quotient of incurred claims along with overall insurers' expenses and earned premium.** As opposed to the LR, the combined ratio also accounts for all insurers' expenses incurred in connection with writing the business, which makes the ratio one of the single most accurate indicators of the economics of the industry. As insurers are expected to generate value added through insurance coverage rather than through asset management services, in a healthy insurance sector the combined ratio should always be below 100 percent. In Serbia, the combined ratio stood at 97.1 percent in 2008. However, due to the growing competition for market share from new market players, it is likely to deteriorate further in 2009.

C. Reinsurance

43. **Reinsurance is the main tool that insurers use to limit their exposure to poorly diversifiable risks and reduce the volatility of their underwriting and financial results.** The extent to which insurers use reinsurance in their day-to-day operations can be viewed as an indication of the quality of their risk management systems. Companies' reinsurance placements can indicate the prospects for their long-term survivability (particularly in the case of small and mid-size companies).

44. **To this effect, we have devised the premium retention ratio (PRR), which measures the percentage of NPW in GPW, or the percentage of the premium that was retained by insurers after the completion of risk transfer to reinsurers.** In Serbia, the PRR is unusually high, around 92 percent (compared with 60 percent globally), which, to a large extent, reflects the compulsory cession of all reinsurance premium through locally registered reinsurers. It also may reflect the fact that reinsurance contracts issued by local reinsurance companies do not have the "cut-through" clauses, which would allow local insurers to go directly to the foreign reinsurers.[3] Until recently, reinsurance placements were limited mainly to Dunav Re, which effectively operates as a fronting company for foreign reinsurers. Serbian insurers have been reluctant to incur additional intermediation fees without getting direct access to highly rated reinsurers. However, with the recent entrance of the VIG Group into the local reinsurance market, Dunav Re's ability to maintain its grip on the domestic reinsurance market is likely to diminish in the future due to the lack of the investment-grade rating and low capitalization.

IV. Insurance Regulation

45. **Despite the impact of the financial crisis, the industry appears to be financially stable and healthy with regard to its overall underwriting performance.** In many respects, these achievements can be attributed to the robust regulatory and legal framework of the sector

1.

3. In Serbia, the cut-through clauses in reinsurance treaties are outlawed by the existing bankruptcy legislation, which grants equal rights to all creditors of an insolvent company. The law does not distinguish between insurance or reinsurance business and other industries.

and its vigorous enforcement by the NBS. In this section we describe the main elements of the Serbian regulatory regime, consisting of regulatory and legal acts and NBS insurance supervision capabilities.

A. Regulatory and Legal Acts

46. **The cornerstone of the country's insurance legislation is the 2004 Insurance Law.** This was published in the *Official Gazette* no. 55/04 on May 24, 2004, and came into effect on May 29, 2004. The new law has largely replaced the Property and Personal Insurance Act 1996*,* inherited from the former Yugoslavia. The Insurance Law sets the minimum solvency margin requirements, which closely follow the EU Solvency I Directive.

47. **One of the most important innovations of the 2004 Insurance Law was to make the NBS responsible for investigating complaints not only from policyholders, but also from claimants under motor third-party liability policies.** Before the NBS was appointed as the insurance supervisor in Serbia, the majority of MTPL insurers obstructed or ignored third-party bodily injury claims. The most unscrupulous MTPL insurers have now had their licenses revoked, and the remaining companies are under pressure from the NBS to settle claims quickly and fairly. The NBS has established a consumer protection unit, which includes a claims mediation service.

48. **The Insurance Law gives the NBS a wide range of powers for intervening in the affairs of delinquent insurance companies.** These include ordering the elimination of irregularities, portfolio transfers, or financial restructuring, taking control of a company or its assets, appointing receivers, and withdrawing the company's insurance license.

49. **Over the years, the Insurance Law has been supplemented by numerous by-laws and regulations issued by the NBS.** Additional pieces of important legislation in support of the Insurance Law include the Law on Amendments and Supplements to the Insurance Law (*Official Gazette* no. 61/2005) and the Law on the Bankruptcy and Liquidation of Banks and Insurance Companies (*Official Gazette* no. 61/2005). The main purpose of the Law on Amendments and Supplements to the Insurance Law is to allow for privatization of the state-owned insurance companies—Dunav, DDOR Novi Sad, and Kopaonik—through a sale of social capital to private investors. The Law on the Bankruptcy and Liquidation of Banks and Insurance Companies lays down procedures for the bankruptcy and compulsory and voluntary liquidation of insurance companies and assigns priority rankings to creditors of insolvent insurers. It also enables the NBS to freeze assets of insurers that are out of compliance with minimum solvency requirements.

50. **The new MTPL Law, which became effective in October 2009, is an essential piece of the insurance legislation.** The law is an important development for the Serbian insurance market, where MTPL business accounts for the largest share of the premium. The law introduces higher insured limits, sets a cap on insurance commissions, and brings the current MTPL legislation in line with that in the European Union.

51. **A new Accounting Law, which came into force at the end of 2005, requires Serbian companies, including insurance and reinsurance companies, to make balance sheet provisions for bad and doubtful debts.** Statutory provisioning levels are 20 percent for

receivables that are 30 days overdue, 50 percent for receivables that are 60 days overdue, and 100 percent for receivables that are 90 days overdue. Any receivables that are more than 90 days overdue must be reported to the NBS. The new law has had a salutary effect on Dunav and DDOR Novi Sad, whose control of the industrial property market was largely dependent on their tolerance of premium arrears. As shown in Table 5, the new credit control procedures have led to higher premium collection ratios and the cancellation of policies for non-payment of premiums.

52. **Under the current insurance legislation, all insurance companies must appoint a certified actuary licensed by the NBS.** The actuary's duties include calculating premium tariffs and the solvency margin and certifying the adequacy of the technical reserves. If the supervisory board of an insurance company is unable to accept its actuary's opinion, it must report the fact to the NBS within 15 days and justify its position. Companies are also required to submit annual audited accounts and a report on the implementation of their reinsurance risk management policy, in both cases certified by a qualified actuary, within 15 days of their completion and not later than April 30 in the year following the reporting year. Electronic reports, some of them certified by a qualified actuary, must also be submitted to the NBS covering issues such as premium income, reinsurance, settled and outstanding claims, technical reserves, liquidity, solvency, investments, and so on. Some reports are required quarterly, some monthly, and some daily.

53. **The NBS published a strategic plan for 2006–09, which envisages a progressive evolution from compliance-based to risk-based supervision.** The first stage in this plan involves the introduction of an early-warning system to allow the NBS to intervene in companies' affairs before cases of financial or managerial weakness become irreversible.

B. NBS Regulatory Capabilities

54. **Under the Insurance Law, the function of insurance supervision is delegated to the National Bank of Serbia, which established a special Insurance Supervision Department for that purpose.** The head of the department reports to the NBS vice governor. The department currently employs 42 staff, which, given the considerable increase in the number of insurance companies and brokers operating in the market, is a testimony to their high productivity (see Table 7).

Table 7. Number of Supervisory Staff, Insurance Companies, and Brokerage Firms, 2007–09

Agency or firm	2007	2008	2009
NBS Insurance Supervision Department staff	35	38	42
Insurance companies	20	24	25
Agent and broker firms	59	65	66

Source: NBS data, 2009.

55. **The NBS Insurance Supervision Department has five key responsibilities.** These include regulatory policy work comprising preparation and issuance of insurance directives and

by-laws, licensing of market participants, off-site supervision, on-site supervision, and consumer protection. Below we briefly discuss each of these functions.

Regulatory Policy Work

56. **Since its inception, the NBS has adopted 23 by-laws, issued six guidance papers, and assisted the government with the preparation of two laws.** The most recent by-laws adopted by the NBS include the following:

- The decision on specific criteria and manner of calculating outstanding claims, 2007
- The decision on data-reporting requirements for insurance companies, 2007
- The decision on the systems of internal controls and risk management in insurance companies, 2007
- The decision on restrictions on certain forms of deposits and investments of technical reserves and on the highest amounts of certain deposits and investments of the guarantee fund of insurance companies, which amends the former decision regulating insurance deposits and investments, 2008
- The decision on the guidance paper for the risk assessment of money laundering and the financing of terrorism, 2009
- The decision on the minimum content of the "know your client" procedure, 2009
- The draft decision on specific criteria and the manner of calculating mathematical reserves and profit share reserves (in the process of being finalized).

57. **In 2009, to prevent the adverse impact of the financial crisis on the insurance industry, the NBS amended the chart of accounts rules for insurance companies by adopting stronger requirements than the International Financial Reporting Standards (IFRS) 7 and IAS 39.** The NBS also adopted new rules on the forms and content of items in financial statements of insurance companies. In December 2008, the NBS adopted the decision on temporary measures for preserving the financial stability in Serbia, which specifies new maximum asset allocation limits during the crisis. In addition, NBS is about to introduce a by-law that will prescribe basic criteria of a bonus malus system in MTPL and define the data-reporting requirements for such a system.

Licensing

58. **Article 41 of the insurance act stipulates that the estimated period for receiving an insurance license is 60 days from the date of submitting the application with all the necessary documentation.** This statutory requirement has also been the practice of the Insurance Supervision Department. From 2007 to 2009, the NBS issued nine green-field operating licenses for insurance companies (four in 2007, four in 2008, and one in 2009). Also during this period, it granted 22 institutional licenses to legal entities for insurance brokerage operations, 10 institutional licenses for insurance agency operations, and 110 individual licenses for insurance agents or entrepreneurs (natural persons).

Off-site Supervision

59. **The Off-site Insurance Supervision Department conducts desk reviews and analyzes all relevant data received from insurance companies through regular and electronic reporting.** Insurance companies are obliged to report in a prescribed electronic format, at least quarterly, their guarantee reserve and the required solvency margin. The department also collects annual data on premiums and claims, premium rates by business lines, costs incurred in connection with claim settlement and payment, changes in life insurance equalization reserves, receivables, as well as data on loss reserving in non-life insurance. After analyzing these data, the department prepares a list of documents (for example, a short financial analysis, monitoring status, and a risk matrix) and delivers them to the on-site department, with suggestions for further supervision activities.

On-site Supervision

60. **Every insurer operating in the market is subject to regular on-site supervision, which is typically carried out once every three to four years.** However, in cases of suspected deterioration of solvency or insurance fraud, on-site supervision can be carried out immediately at the discretion of NBS. On-site supervision establishes the compliance of a company with solvency and risk management rules as well as other NBS requirements.

61. **NBS is entitled to withdraw an insurance license from a company in cases of severe violations of key existing statutory requirements** (i.e., solvency and internal risk management guidelines). Since 2004, the NBS has recalled licenses from 17 insurance companies.

Consumer Protection

62. **To ensure adequate protection of policyholders, the NBS instituted a Consumer Protection Division that operates an insurance complaint hotline.** Over the last three years the number of complaints filed by policyholders against insurance companies has declined precipitously, from 213 in 2006 to 66 in 2008.

63. **Another measure of policyholder protection is the ratio of outstanding claims (that is, not yet settled) to total claims.** The outstanding claims statistics, shown in Table 8, also appear to be satisfactory.

Table 8. Claim Settlement, 2006–08

Indicator	2006	2007	2008
Number of claims			
Total	328,744	364,875	409,213
Outstanding	25,143	25,837	29,338
Settled claims as a percent of total claims	92	93	93

Source: NBS data, 2009.

V. Main Legacy Issues

64. **At least five key legacy issues hamper the development of the insurance sector in Serbia.** These are (a) unpaid claims inherited by the Insurance Guarantee Fund from bankrupt insurers, (b) privatization of Dunav, (c) privatization of the local reinsurance monopoly, (d) a tax on premiums, and (e) separation of life and non-life business. A brief description of these issues follows.

A. Unresolved MTPL Claims

65. **In 2004–05, to remove insolvent companies from the sector, the NBS recalled insurance licenses from 17 companies, which consequently were put in liquidation by the bankruptcy courts.** Since most of the companies had insufficient assets to cover outstanding liabilities, these insolvencies resulted in €80 million of unsettled MTPL claims. These MTPL liabilities are the main reputational challenge to the insurance industry in Serbia. The solution of this problem is in the hands of the bankruptcy courts, which have been rather slow to complete bankruptcy proceedings. Almost six years after the beginning of the bankruptcy proceedings against eight companies, only one company case has been closed, with the other seven still under review.

66. **So far, the pace of bankruptcy proceedings has been very slow, and many policyholders are reluctant to accept immediate out-of-court settlement at a 30 percent discount from the Guarantee Fund.** As a result, the Guarantee Fund has been able to finance all "legacy" claims from its current cash flow and the proceeds of the DDOR privatization sale received from the government in 2008. According to the Guarantee Fund estimates, there are more than 12,000 unsettled claims from all insolvent companies. As of October 2009, SRD 2.654 billion worth of claims were filed with the fund, although none of these claims had all the necessary documents for immediate payment. As a result, while these claims have not been recorded on the fund's books as a liability, they represent a considerable potential liability. The fund expects that the additional SRD 4.712 billion worth of claims will be filed once the bankruptcy procedures have been completed over the next few years. All in all, the overall estimate of claims on the Guarantee Fund amounts to around SRD 7 billion or about €75 million at today's exchange rate. Given the slow pace of the bankruptcy court proceedings and the low rate at which the policyholders have been accepting the fund's offer of an immediate (but discounted) claim settlement, there are no reasons to believe that the fund will have difficulty financing its "legacy" claims out of current cash flow. However, if a major change in the bankruptcy court proceedings results in an upsurge of filed claims, then additional sources of funding may be needed. As stipulated by the new MTPL Law, these may include government budget transfers and a premium surcharge on MTPL insurance policies.

67. **The fund employs 12 full-time employees, who are fully dedicated to resolving claims arising from damages caused to third parties by either uninsured or unidentified vehicles or due to bankruptcy of local insurers.** Since its creation in 1997, the fund has fully resolved more than 15,000 claims, with a total cost of about SRD 535 million. This includes SRD 223 million worth of claims paid by the fund during the last two years to the policyholders of bankrupt insurers. The fund issues annual financial statements, which are audited by an independent auditor.

68. **Although the solution to the problem of unpaid claims is currently beyond the reach of the insurance sector and the government, the presence of unpaid claims undermines the confidence of the Serbian population in insurance and inhibits development of the local insurance market.** While the new MTPL Law identifies the sources of funding for the "legacy" claims, the government and NBS must ensure that, on creation of a new Guarantee Fund, the "old" fund will receive sufficient funding to deal with the expected flow of claims in the foreseeable future.

B. Privatization of Dunav

69. **The other major challenge is the extent of work required to maintain the competitiveness of Dunav prior to its privatization or, at minimum, the sale of a sizable stake to a strategic investor.** Actions by the management have been successful so far in improving the company's operational performance, profitability, and solvency. The recent introduction of a new modern information technology system has enabled the company to centralize cash and claims management and to restructure its operations along functional lines. Yet the company's real growth rate has been lagging behind that of the Serbian insurance market (7 percent for Dunav compared with 8.2 percent for the market), which is also reflected in the company's shrinking market share, from 35 percent in 2007 to 28 percent in 2009. This drop has been offset somewhat by improved profitability in 2008, when for the first time in recent history Dunav recorded a 14.5 percent return on equity. In the second quarter of 2009, however, the return on equity was close to zero due to the impact of the economic crisis and the considerable restructuring expenses incurred by the company (redundancy and retirement packages).

70. **The company's key financial ratios, presented in Table 9, show that, while the financial stability, solvency, and liquidity characteristics are on par with or better than those for the market as a whole, Dunav's underwriting performance is lagging.** For instance, over the last few years, the company's claims ratio has been consistently above 80 percent, which is higher than that of the industry. This phenomenon can possibly be explained by the fact that, due to the large size of the company's market share (28 percent of GPW), it has less room than its competitors to choose better-quality risks. Nevertheless, improvements in the company's profitability through enhanced underwriting performance and further cost reductions should be viewed as a priority by the company's management for the next few years.

71. **The market conditions for a strategic sale of Dunav may still be unfavorable in 2009.** Nevertheless, the government and management should consider divesting Dunav's non-core assets or selling at least a minority stake to a strategic investor. In that sense, the contemplated sale of a minority equity stake to the European Bank for Reconstruction and Development may be a good beginning.

Table 9. Financial and Underwriting Performance Ratios of Dunav, 2007–09

Ratio	2007	2008	2009 (I–IV)
Receivables/total assets			
Dunav	11.61	13.22	15.55
Market	12.7	11.8	14.3
Liquid assets/total assets			
Dunav	56.54	52.48	55.68
Market liquid	39.3	39.1	37.9
Guarantee reserve/solvency margin			
Dunav	326.78	298.49	372.57
Market	211.0	173.0	186.0
Net technical reserve/net written premium			
Dunav	85.45	86.48	—
Market	70.0	76.0	—
Net written premium/guarantee reserve			
Dunav	196.32	209.77	—
Market	170.0	190.0	—
Claims ratio			
Dunav	89.0	82.0	79.0[a]
Market	75.0	80.0	78.0

Source: NBS, Dunav, 2009.
— Not available.
a. Author's estimate.

C. Two-Step Reinsurance Requirement

72. **According to the Insurance Law, Serbian insurance companies are only allowed to reinsure with authorized domestic reinsurers, which are the only organizations allowed to place reinsurance business abroad.** This requirement will remain in effect for five more years counting from the day of Serbia's admission to the WTO. Until recently, there were only three domestic reinsurers, Dunav Re, Novi Sad Re (the reinsurance trading name of DDOR Novi Sad), and Delta Re, although the role of the last two was insignificant. The problem of the reinsurance monopoly is being addressed somewhat by the recent launch of a VIG-owned Serbia-based reinsurer and by the presence in the market of Delta Re (majority owned by Generali). Nevertheless, the current reinsurance regime results in a 5–7 percent additional surcharge (essentially a fronting fee) on all reinsurance placed by local companies through Dunav Re. Hence the liberalization of the local reinsurance market will help local insurers to reduce the cost of doing business.

D. Premium Taxation

73. **On January 1, 2005, an insurance premium tax of 5 percent of gross premiums was introduced on all non-life premiums except for employer-paid group personal accident.** The tax is payable by the policyholder. Given the anemic growth of the sector, the 5 percent tax on premiums may be viewed as a major deterrent to development of the sector.

E. Separation of Life and Non-life Insurance

74. **Serbia is one of the few countries in the world that does not require the separation of life and non-life insurance.** This generates a considerable systemic risk for the insurance sector. Despite the fact that the Insurance Law of 2004 calls for such a separation, the deadline for its implementation has been extended twice. The new deadline for complete separation expired at the end of 2009. As many insurance companies in the local market have already made the required organizational and financial arrangements for the separation of their life and non-life operations, postponement of the separation deadline for the third time would send a wrong signal to the market and effectively penalize the companies that were among the first prepared to comply with the law.

VI. Recommendations

75. **Due to the relentless efforts of the NBS to enhance the insurance regulatory framework, improve financial and underwriting performance of the industry, and protect policyholders, the Serbian insurance sector has been well prepared to withstand the adverse impact of the economic crisis.** So far, no insurance companies have been reported insolvent or closed down by the regulator, and the solvency and financial stability indicators of the industry, despite a small deterioration in 2009, remain solid.

76. **The main challenge for the Serbian insurance sector lies in its anemic growth and unresolved legacy issues, rather than a lack of effective insurance regulation.** Hence, our key recommendations focus mainly on policy actions that the NBS and government can undertake jointly to revive growth of the sector.

A. Risk-Based Supervision

77. **While the current regulatory approach adopted by the NBS is modeled largely after the EU insurance regulation (particularly the Solvency I Directive), we would like to encourage the NBS to begin preparing for the early adoption of the risk-based supervision regime envisaged under the Solvency II regime.** One of the main rationales for the early adoption of the risk-based supervisory framework in Serbia is to bring the solvency requirements of the industry in line with its net risk exposure. Based on our analysis of the financial state of the industry, we believe that the adoption of a risk-based solvency framework may result in a significant reduction of risk capital ("guarantee reserve") currently held by the insurance industry

and consequently result in lower insurance premiums for Serbian consumers without compromising the credit quality of their insurance coverage.

B. Tax Incentives

Non-life Insurance

78. **Given the lack of real growth in the insurance sector, we recommend, at least temporarily, eliminating the 5 percent tax currently levied on non-life insurance premiums.** This would help to lower the cost of coverage for Serbian consumers and stimulate the anemic demand for insurance products.

Life Insurance

79. **We also recommend that the NBS jointly with the government consider introducing favorable tax treatment for life insurance premiums.** This would help to boost the growth of the life insurance industry and put it on a level playing field with other long-term savings products. At the very least, life insurance premiums (for long-term savings products) should receive the same tax treatment currently afforded by the pension legislation for personal contributions to the voluntary pension scheme (the so-called third pillar). Additional policy measures in this regard include making employers' contributions to employees' group life insurance plans fully tax deductible (up to a certain limit), which would enable policyholders to deduct their life premium contributions from taxable income or receive a tax credit for a percentage of life premium paid on filing annual tax returns. Besides supporting development of the sector, such demand-boosting measures for life insurance products would play an instrumental role in development of the dinar-denominated long-term debt market, which currently does not exist. This would help to reduce the cost of government long-term borrowings and limit the currency exchange risk for the Serbian Treasury.

C. Simpler Licensing Requirements for Life Insurance Agents

80. **To sell life insurance, local insurance regulations require life insurance agents to be fully licensed and employed either by an insurance company or a life insurance agency.** While the former requirement is fully justified, the latter results in higher fixed costs for insurers and limits their ability to expand their agency networks. We recommend that the NBS review the current employment requirements for life insurance agents with a view to requiring affiliation with a life insurance company or an agency (in lieu of a requirement for full-time employment). The measure is expected to boost the penetration level for life insurance products.

D. Development of New Property Insurance Products

81. **The current structure of the insurance premium written in Serbia is heavily skewed toward MTPL and CASCO lines of business (44.3 percent in 2009 compared with 42 percent in 2008).** Both lines show dismal underwriting performance, and this is likely to deteriorate further with the increasing competition in the market. At the same time, the percentage of premium from property business has been declining (27.9 percent in 2009 compared with 33.2 percent in 2008). Despite being heavily exposed to floods and quakes, very few homeowners' policies include catastrophic insurance coverage, leaving millions of Serbian homeowners and hence the government financially vulnerable to natural disasters. The NBS and the government should consider policy measures to boost the demand for catastrophic insurance coverage in the country. Such measures may include (a) making it compulsory for all mortgage loans made by commercial and state-owned banks in disaster-prone areas to carry catastrophic insurance coverage in addition to other perils; (b) developing and making public detailed disaster risk maps for flood and earthquake risks; (c) insuring all state-owned housing against natural perils; and (d) possibly creating a national catastrophic insurance pool or joining a regional one for Southeastern Europe.

E. Consumer Education on Insurance Products

82. **A considerable gap in Serbia is the low level of consumer education on existing insurance products, policyholder rights, and protections afforded by the current legislation.** The NBS jointly with government may consider devising a public education campaign on the benefits of insurance with a view to raising the level of awareness of the industry among Serbian consumers.

F. Legacy Issues

Funding of MTPL Claims

83. **So far, the Guarantee Fund has been able to settle all valid claims from policyholders of bankrupt insurers out of the annual contributions of its member companies.** In 2008 the Guarantee Fund received around SDR 450 million in membership fees (out of which only SDR 150 million was spent on new claims) as well as 10 percent of DDOR privatization proceeds. In the absence of major changes in the pace of bankruptcy court proceedings and assuming that the current revenue of the fund remains the same, there are good reasons to believe that it will be able to continue meeting all valid claims from policyholders of bankrupt insurers in the future.

84. **However, as the new MTPL Law calls for the creation of the new Guarantee Fund (in addition to the existing Guarantee Fund, which will remain in the run-off), it becomes essential that the NBS and the government of Serbia ensure adequate continuity of funding for the liabilities of both funds**. This may include industry contributions, a temporary surcharge on all future MTPL insurance policies that would be earmarked for the Guarantee Fund, and, possibly, government contributions to the fund in the future. Specifically, NBS should define the

minimum annual contribution of the insurance industry to the "old" Guarantee Fund with a view to ensuring its ability to continue offering immediate settlements to policyholders of bankrupt companies with valid claims. At the moment there appears to be no need either for an additional surcharge on premiums or for a government budget transfer to the fund. So far the fund has been able to meet all its obligations (both "old" and "new" claims) out of current cash flow.

Privatization of Dunav

85. **The continuing presence of a dominant state-owned insurance player in the market no longer can be justified in light of the sector liberalization policy adopted by the government.** While the current market conditions may not be ripe for either the full-scale privatization of the company or a strategic sale, we recommend that the government commit to privatizing Dunav over the next three years. In the meantime, the government should consider initiating the process of divesting Dunav's non-core corporate assets.

G. Liberalization of the Domestic Reinsurance Market

86. **Given the additional cost burden imposed by the current reinsurance requirements on the local market and the unusually high premium retention rate for the Serbian insurers, we recommend that the government jointly with NBS review the current reinsurance requirements.** The goal would be to broaden the scope for competition among local and international reinsurers in the Serbian insurance market even prior to Serbia's joining the WTO.

H. Separation of Life and Non-life Insurance

87. **The separation of life and non-life insurance should be considered an immediate policy priority and implemented in accordance with the announced timetable.**

APPENDIX A. GROSS WRITTEN PREMIUM PER CAPITA IN SELECT COUNTRIES

% of gross domestic product

Country	Life and non-life	Life	Non-life
Australia	6.40	4.23	2.17
Austria[a]	6.13	2.75	3.38
Belgium	9.29	6.62	2.68
Canada	7.55	3.05	4.50
Czech Republic	3.72	1.52	2.20
Finland	3.22	1.56	1.67
France[a]	13.02	8.45	4.57
Germany	6.73	3.09	3.64
Greece	2.24	1.10	1.14
Hungary	3.65	2.01	1.64
Iceland	2.90	0.24	2.66
Ireland[a]	19.56	15.58	3.98
Italy[a]	7.43	4.87	2.56
Japan[a]	7.13	5.51	1.61
Korea, Rep. of[a]	11.87	8.21	3.66
Luxembourg	34.48	30.50	3.98
Mexico	1.95	0.86	1.09
Netherlands	8.24	4.62	3.61
Norway	5.29	2.98	2.32
Poland	..	2.19	..
Portugal	8.21	5.66	2.55
Spain	5.21	2.25	2.97
Switzerland	12.41	4.91	7.49
Turkey[a]	1.62	0.19	1.42
United Kingdom[a]	16.40	11.61	4.80
United States	8.68	3.78	4.90
Serbia[b]	**1.07**	**0.13**	**0.94**
Russian Federation	1.47	0.07	1.40

Source: OECD Insurance Statistics, 2008.
.. Negligible.
a. OECD estimate.
b. Author’s estimate.