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INVESTMENTS OF SERBIAN INSURANCE COMPANIES

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In many countries insurance investments make a significant contribution to economic development. This particularly applies to life business. Generally speaking, insurance companies primarily focus on security of investments, and then on yield level.

After the Insurance Law was enacted in 2004, the investments in Serbia have been getting considerably more attention. The limitations accompanying the insurance investments in Serbia primarily refer to an extremely poor choice of types ofinvestable property. Besides the state, there also should be far more other issuers of securities, such as companies. The paper also presents a comparison of insurance investments in the surrounding countries. In order to overcome the still very narrow possibilities of investing in Serbia, it is necessary to ensure a far greater development and diversity of both insurance and the financial market.

Keywords:

Investments of insurance companies, insurance investments in Serbia, insurance market in Serbia, insurance in emerging markets

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I INTRODUCTION

Continuous increase of assets should be a major commitment of every insurance company aiming to survive in the market, and intensify its competitive advantage. Besides enlargement of the insurance portfolio, the second most important way of increasing the assets in stable economic conditions implies prudent investing of the available portion of these assets. For this reason, the paper deals with investments, one of the extremely important issues accompanying the operations of every insurance company.

Preserving and increasing the actual value of assets is difficult, particularly in a situation marked by substantial price increase, which is typical of many emerging economies. One of the noteworthy examples of highly adverse impact of inflation to the operations of insurance companies can be seen in Serbia. During the period of hyperinflation, which peaked at the end of 1993 and in early 1994, when one of the highest price growths ever was recorded worldwide, the insurance funds were completely destroyed (Zarkovic, 1998). The significance of this issue was additionally accentuated by the global financial crisis in 2008/2009, which also affected the insurers, although, generally speaking, to a much lesser extent than most of the companies engaged in other businesses.

The issue of investments in Serbia was regulated in detail only after the passing of the Insurance Law in 2004, and adopting the relevant by-laws that were issued and re-amended in the following years, until this very day. The past years offer quite a stronghold for a scientifically based analysis of this area. The purpose of this paper is to review the status of insurance investments, and suggest on how they could be improved. The most important changes in respect of the investments in this country occurred in the last couple of years, which made the decision on a period to be researched in this paper easier.

We first explored the theoretical viewpoints on insurance investments, which represent the basis for research of this subject in Serbia, too. It was also imperative to study the comprehensive legislation governing the investments of technical reserves. In respect of this, the permitted forms and level of investments for both life and non-life insurance have been analysed in detail.

Taking into account the total amount of investments, we studied the composition of life and non-life insurance investments by quarters, from 2009 onwards. We pinpointed the specifities accompanying the investments of technical reserves in Serbia, particularly the life insurance assets, and their correlation with the degree of the whole financial market development. Eventually, we compared the investments of the insurers in Serbia with those of the insurers in the surrounding countries. The conclusion presents the most significant findings, as well as the evaluation of future development directions and improving the investment opportunities.

II LITERATURE OVERVIEW

When investing, the insurers observe the same principles as other investors in the market. The above fact largely contributed to there being a large number of theoretical and practical studies focused on the relevant open issues. However, considering the specific quality of insurance business, the principle of generating profit is not of that much importance to insurers as it is to, for example, banks. In case of insurance companies, the assets should be invested as securely as possible, even with a lower return, in order to ensure that the contractual obligations towards the insured are duly met. On the other hand, the principle of security is not always possible to observe in full, since the principle of profitability is a precondition of progress and survival on the market.

The first integral theoretical approach to insurance investments was developed as early as a century and a half ago. It emphasized the security of equity as the most important principle of life insurance investments, while a return on equity came second. The crucial objectives involved allocation of investments to various securities based on the return, as well as using the investments to promote insurance business. Even today, most companies lay emphasis on security, and attempt to generate the highest possible returns on investments. The philosophy behind investments rests on the fact that the nature of asset classes, which are to be included in the portfolio, has to correspond to the nature of the insurer's liabilities as much as possible (Outreville, 1998). Hence almost complete dissimilarity of these issues with life and non-life business.

It is a common practice among insurers to use the Modern Portfolio Theory (MPT) (pioneered by the Nobel laureates Markowitz and Sharpe in the 1950s) to allocate assets in line with the investment objectives and liabilities, and Asset-Liability Management which supports the above theory from the point of view of the specific quality of insurance contractual obligations (Swiss Re, 2010).

The MPT is based on the idea of an efficient investment portfolio, which is interpreted as achieving the maximum expected return for a given level of risk. Application of this theory makes the investment decision making, as well as risk analysis easier. An efficient portfolio is diversified by taking into account the risk and expected return of every investment, as well as the correlation between these investments. If an insurer increases the number of asset classes in the portfolio by, for example, investing not only in the conventional government bonds, corporate bonds and stocks, but also in the real estate and emerging market equities, he will achieve the portfolio optimisation followed by even higher expected return with no added degree of risk (Elton et al, 2010).

Considering how long ago it was developed, it is no wonder that many authors have upgraded and extended the MPT. For example, the Dynamic Portfolio Theory introduced a new model, which, unlike the static nature of the MPT, adapts to the volatile market conditions. This approach implies the procedure which is used to evaluate the factors that are crucial to the performance of the most important asset classes. The Dynamic Portfolio Theory also enables the investors to change the diversification of investments and increase their optimisation (Oberuc, 2004). Other authors, on the other hand, aim only to draw a clear line between the true innovations that developed after the introduction of the MPT, and mere improvements of the well-known and long existing techniques. The purpose of this approach is to help managers or investors with the crucial portfolio management issues – investment management, risk analysis and performance evaluation (Amenc and Le Sourd, 2003).

The Asset-Liability Management (ALM) was developed in the 1970s, when, due to the sharp increase of interest rates, financial institutions began highlighting the interest rate risk. That particularly affected the life insurers, who traditionally set the premium starting from the static assumptions on a level of interest rates and behaviour of the insureds (Swiss Re, 2000). Realisation of the interest rate risk lead up to bankruptcy of several major insurance companies. It immediately brought about intensified supervision of the insurers who sold interest-sensitive products, as well as requests for better management of interest rate risk (Kopcke and Randall, 1991). Nowadays, one of the most frequently mentioned examples of the 2008/2009 global financial crisis in the area of insurance refers to a collapse of the Japanese insurer Yamato Life Insurance. The collapse was the result of inadequate asset management, since the majority of assets were invested in stocks. However, due to specificity of insurance business, most companies experienced only the indirect aftermath of the financial crisis (Eling and Schmeiser, 2010).

For a long time now, the ALM, being the fundamental component of investment management, has entailed not only the techniques for management of interest rate risk, but also of other market risks, such as equity risk, property risk or currency risk. Modelling and measuring includes credit risk, operational risk, liquidity risk and underwriting risk as well (Sandström, 2011). Similarly to enhancements of MPT, ALM also focuses on dynamic aspect, so the dynamic asset allocation strategies are being developed, which help control risks more effectively (Leung, 2011). Based on the recent developments, the impact of the Solvency II regime on investment policy of life insurance companies from the point of ensuring the required capital is also being analysed (Bragt et al, 2010).

Insurance assets must be invested so that some of them may be used any time to settle liabilities, since, due to the nature of risks, an insurer cannot know in advance when he will need the collected money to settle contractual obligations. Therefore, cash flow management represents one of the primary points of importance in ALM. There are various approaches for the cash flow matching problem, such as stochastic programming-based approach and risk management approach (Iyengar and Ma, 2009). Adjustment of cash flows usually proceeds with certain tolerance level, i.e. certain mismatch between assets and liabilities, so that the insurers can maximize returns on investments.

Derivatives are a precious tool for insurance ALM. The level of their importance places them among the stepping stones of successful ALM (Briys and de Varenne, 2010). Derivative markets are usually more liquid than the markets for other classes of financial assets; in addition they could be used to manage a series of risks in a quicker and cheaper way than compared to stocks or bonds. Various types of derivatives enable the investors to further enhance their portfolios (Yang et al, 2011), so it is no wonder that their use is on the rise with life insurers (Swiss Re, 2010).

III BACKGROUND OF INSURANCE INVESTMENTS IN SERBIA

The current Insurance Law passed in 2004 (Republic of Serbia Securities Commission, 2007), as well as separate decisions that were adopted later on, pay considerable attention to investment issues. The investments of technical reserves of insurance companies, which are used to cover liabilities stemming from insurance operations, are dealt with in detail. Supervision over the operations of insurance companies, including the investments, has been entrusted to the National Bank of Serbia (Zarkovic, 2006).

As in most other countries (Cummins and Venard (eds.), 2007), in Serbia, too, certain forms of property are specified as a property in which the provisions can be invested so that their actual value may best be preserved–stocks, bonds, other equities, bank deposits, real-estate investments. This was done in compliance with the relevant EU guidelines for life and non-life insurance (EC, 2002; EEC 1992). In some countries insurers may, like banks, grant mortgages and loans directly. This was forbidden in Serbia as far back as thirty years ago (the only exception is policy loans in life insurance). In addition to listing the permitted forms of investments, the National Bank of Serbia has also prescribed the constraints regarding individual shares in the investment portfolio for the majority of them (Table 1).

TABLE 1. MAXIMUM TOTAL INVESTMENTS OF TECHNICAL RESERVES OF INSURANCE COMPANIES

Percentage

Forms of investments	Life insurance	Non-life insurance
Debt securities traded on organised market in Serbia and debt securities issued by legal entities in EU or OECD countries	30	20
'A list' shares traded on the Belgrade Stock Exchange	35	35
Other shares traded on organised market in Serbia and shares issued by legal entities in EU or OECD countries	15	10
Serbian shares and debt securities not traded on an organised market	5	5
Serbian bank deposits	35	40
Serbian real estate	30	15
Policy loans	10	-
Serbian government or central bank securities, debt securities issued by EU or OECD countries, central banks of EU or OECD countries and international financial institutions, as well as securities guaranteed by any of the above issuers	No constraints	
Cash and demand deposits in Serbian banks	No constraints	

Source: Own review based on the National Bank of Serbia, (2011)

As a rule, assets of insurance companies are invested in the Republic of Serbia. The novelty is that up to one fifth of the insurer's pecuniary portion of the initial capital may be invested abroad, however, it is subject to prior approval of the National Bank of Serbia (Republic of Serbia Securities Commission, 2007). Until now, this opportunity has been used only scarcely and in small volume by foreign-owned life insurers. Investments in foreign market are certainly important from the point of view of diversification of risks and greater security. We suppose that, besides the fact that the administration procedure for obtaining the license from the National Bank of Serbia often takes too long, the main reason why this opportunity is used pretty rarely lies in lower return to investments abroad.

We note that non-life insurance companies have less space for investing technical reserves in real-estate and securities. It is completely in line with the nature of their business, as it usually involves one-year contracts. Non-life insurance is distinguished by far greater degree of uncertainty, not only in terms of size, but also in terms of the period when a liability was incurred. Therefore, it is impossible to match the liabilities and investments to the extent they are matched in life insurance. A profit generated by investing the temporarily available assets is definitely gaining in importance for insurance companies selling non-life insurance in Serbia, too, thus their paying increasing attention to an investment portfolio comes as no surprise.

For each of the items listed in Table 1, for which the maximum of total investments of technical reserves is prescribed, there is also a constraint in terms of one issuer of securities, one bank or one property. For example, up to 10% of the total invested technical reserves may be invested in one domestic bank or in one property, regardless of the line of business an insurance company is engaged in (life or non-life). Furthermore, up to 15% and 10% of life and non-life business, respectively, may be invested in shares of one issuer from the 'A List' of the Belgrade Stock

Exchange. As for bonds traded in an organized market, the permitted amount is up to 5%, for both life and non-life insurance.

The above constraints help ensure a diversification of investments, which in turn alleviates the possibility of companies becoming illiquid. We are of the opinion that this double chain of security is appropriate, as it provides better possibilities for financial risk management to the insurers.

IV METHODOLOGY

The results of life and non-life insurance investments have been evaluated separately, by applying a quantitative and qualitative analysis. We have assessed total investments, which the National Bank of Serbia, being the insurance supervisory agency, discloses only in relative amounts. Examining the composition of investments by individual classes of property is even more interesting, and it was done by drawing separate tables repesenting a breakdown by lines of business. The reference points were the last days of every quarter in 2009 and 2010, and the first two quarters of 2011. We took the year 2009 as a starting point, because it was from then on that the notable changes in the composition of investments have been introduced in both life and non-life insurance. In addition, we tried to determine the reasons behind the most significant changes in the composition of investments. Finally, we compared the effects of the investments of the Serbian insurers with the insurers in six countries, whose economic development has for years been the same or at least somewhat comparable to that of the today's Serbia.

V RESULTS AND DISCUSSION

A. Life insurance investments

Our estimates show that the total amount of invested technical reserves in Serbia at the end of the first quarter of 2011 amounted to approximately € 425 million, which corresponds to 314% of the annual life insurance premium in 2010 (National Bank of Serbia, 2011a).

The main problem for asset managers, particularly in case of life insurance business, is a shortage of suitable investments. As a matter of fact, the MPT and ALM are in no way as much applied in Serbia as they are in developed markets. In 2009 and 2010, there was an extraordinary high concentration of life insurance technical reserves invested only in two forms of assets. By far the largest portion of assets was invested in government securities–foreign currency compensation bonds that are a unique class of bonds issued by the Republic of Serbia in 2002 for the purpose of settling the bank liabilities toward the retail sector, which were taken over from the banks whose licenses had been revoked. Apart from these, the money acquired through life insurance sale in that period was mostly invested in foreign currency deposits in banks, considering that the insurer's liabilities were either in foreign currency or in dinars with foreign currency clause, most often euro-indexed (Table 2).

TABLE 2. SHARES OF TYPES OF TECHNICAL RESERVE INVESTMENTS OF LIFE INSURERS IN SERBIA

As at the end of, Percentage of total

Type of investment	2009				2010				2011		
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3
Serbian government securities	76	72	74	72	74	65	63	59	82	84	83
Term deposits in banks	18	20	18	20	20	23	22	30	13	11	12
Cash and demand deposits in Serbia	2	3	4	5	4	8	10	7	2	2	3
Other	4	5	4	3	11	4	5	4	3	3	2
Total	100	100	100	100	100	100	100	100	100	100	100

Source: National Bank of Serbia, Insurance Sector in Serbia – Annual and Quarterly Reports, Belgrade, 2009, 2010 and 2011

During the major part of the period under review, demand deposits were almost insignificant, due to low interest rates. Life insurers in Serbia engaged in investing technical reserves into shares so scarcely, that this type of assets was not even listed in Table 2. Shareholding in Serbia is still underdeveloped–there are companies that have not been privatised yet, privatisation procedures are often rescinded, and general economic conditions are still unfavourable. Unfortunately, there is little chance that the situation will improve in the near future. All these factors have an adverse effect on the position of life insurers towards buying shares. European insurers, on the contrary, have significant equity holdings; even though they dropped considerably since 2000, shares account for approximately 15% of their investments (Geneva Association, 2010).

The whole 2010 was marked by the fall of share of government securities and growth of share of term deposits in banks. The government securities that the life insurers invested in during 2009 and 2010 were foreign currency compensation bonds. They are euro-denominated, in electronic form, zero-coupon bonds, falling due on May 31, every year starting from 2003 through to 2016. The total bond issue was € 4.2 billion. They are regularly traded before maturity at the Belgrade Stock Exchange (AXCO, 2011). We mention that these bonds will expire in several years, which has continously curtailed space for insurance investments.

The foreign currency compensation bonds could originally be purchased at such a deep discount that their effective yield amounted to as much as 13% to 14% per annum to maturity. Due to narrowed opportunities for long-term euro investments in Serbia, a demand for these bonds was constantly growing, and so did their prices, which caused plummeting of the yield. In the several previous years, the annual yield had reached 7% to 8%, just to be reduced to 3.2% to 3.4% in 2010. That is why, in the course of 2010, the insurers gradually began depositing their assets with the banks, where they earned a 4.2% to 5.0% interest.

The observed trend could not have been evaluated positively, because the assets that were deposited in banks for six months or one year could not represent an adequate resource for long-term development projects, in other words, they could not be of much use to the economy.

Short-term depositing is not appropriate for life insurance companies either, since it disturbs the balance in a balance sheet by causing a mismatch of assets and liabilities (short-term investments, long-term liabilities). Foreign owners, who set up life insurance companies in Serbia, always point to this mismatch as a big drawback, since the markets they operate in do not generally experience this situation.

The year 2011 saw considerable changes in the composition of life insurance investments. In February, the first auction of 15-year coupon government Eurobonds, with 5.85% annual interest and semi-annual payment of interest was held. These are nominal bonds which are attractive to the conservative long-term investors in a situation when the inflationary expectations are stable in the long run (Campbell, 2009). However, we point out that the respective bonds are not denominated in the official Serbian currency, dinar, but in euros. At the moment, this is the only way for life insurers to preserve the real value of investments in Serbia. The total value of the offered bonds, which were, due to their characteristics, intended primarily for the insurance sector, was € 200 million. The accumulated funds were to be used by the government for financing of the budget deficit and current liabilities. In February, almost half of the offered Eurobonds (97,371) were sold, the total nominal value of which was € 97.4 million. The remaining part was offered in June 2011, when the bonds sold amounted to € 46.9 million.

We reckon that, for the most insurers in Serbia, the timing of Eurobonds issue was right, bearing in mind the already stated problem regarding the foreign currency compensation bonds. A long-term character of the newly issued bonds, as well as a yield level, ensure the timing of liabilities and placements, and provides security to clients due to the guaranteed interest rate. The advantage of these bonds lies in semi-annual payment of coupons, which contributes to the liquidity and creates possibilities for investing in other instruments on a financial market. Life insurance companies showed major interest in purchasing government Eurobonds, and they were almost the sole buyers of those. By purchasing 34.2% (nearly € 49.3 million) out of all bonds sold in both auctions, Grawe proved to be the most serious buyer. However, out of the above amount, approximately € 30 million were invested on behalf of the parent company Grawe in Austria, which is in keeping with the widely accepted approach in developed countries regarding the possibility of profitable investments in shares and bonds issued by emerging countries (Hochberg und Zürcher, 2011). Among other buyers of Eurobonds, there were Wiener Stätdische, Delta, Dunav, Merkur, Uniqa, as well as other insurers operating in Serbia.

Life insurers are known to mostly make fixed yield investments, and this is also the case with Serbian insurers. Investments in government bonds and term depositing of foreign currency in banks ensures them a return higher than the one anticipated on calculation of premium. However, too much a reliance on only two types of investments is certainly a drawback. As of 2011, this drawback has increased, since more than four fifths of all investments are made in only one instrument – government bonds, which is considered unfavourable due to the high risk level of the country of issuer.

B. Non-life insurance investments

We estimate that the total amount of non-life technical reserve investments in Serbia at the end of the first quarter of 2011 amounted to approximately € 262 million, which accounts for 92% of the annual non-life premium in 2010.

In 2009 and 2010, the non-life technical reserves were mostly invested through term depositing in banks. However, after a two-year increase, this type of investment has decreased in 2011. It is obvious that deposits with banks (either term or on demand) were redirected into the securities of the Republic of Serbia (Table 3).

TABLE 3. SHARES OF TYPES OF TECHNICAL RESERVE INVESTMENTS OF NON-LIFE INSURERS IN SERBIA

As at the end of, Percentage of total

Type of investment	2009				2010				2011		
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3
Term deposits in banks	26	26	27	27	29	28	33	32	25	29	28
Cash and demand deposits in Serbia	19	19	18	21	20	20	13	14	14	11	11
Serbian government securities	10	11	14	16	17	17	21	24	25	24	27
Premium receivables	15	16	13	10	11	12	11	9	13	15	13
Shares traded	5	6	8	8	5	5	5	6	5	5	6
Other	25	22	20	18	18	18	17	15	18	25	15
Total	100	100	100	100	100	100	100	100	100	100	100

Source: National Bank of Serbia, Insurance Sector in Serbia – Annual and Quarterly Reports, Belgrade, 2009, 2010 and 2011

For years, the government securities into which the non-life insurers invested, have implied the foreign currency compensation bonds. In February 2009, the treasury bills, short-term dinar securities issued to cover the deficit in the government treasury, emerged on the market. Taking into account the return level and extreme security, the asset managers began redirecting a portion of insurance investments into these bills (DDOR Novi Sad, 2010). In our opinion, it was the key reason behind the increasing of the share of securities of the Republic of Serbia in total investments of non-life technical reserves in the whole period under review.

Premium receivables include unexpired insurance, coinsurance and reinsurance, but only up to the amount not exceeding a company's liabilities from unearned premium for the above insurance, coinsurance, or reinsurance. We want to point out that the receivables have a limited lifetime as a type of investments in Serbia. In the course of 2011, their share may not exceed 20% of the overall non-life technical reserves of a company, while in 2012, they may not exceed 10% of that amount (National Bank of Serbia, 2011).

C. Investments of technical reserves of insurance companies in the region, and comparison with Serbia

In order to compare insurance investments in Serbia and abroad, we have selected the countries in the region which have recently gone through, or are still going through, a transition period. We have taken into account the following countries, for which we had comparable data available:

Bulgaria (Bulgarian Financial Supervision Commission, 2011);

Croatia (Croatian Financial Services Supervisory Agency, 2011);

Macedonia (Macedonian Insurance Supervision Agency, 2011);

Montenegro (Insurance Supervision Agency of Montenegro, 2011);

- Romania (Romanian Insurance Supervisory Commission, 2011);
- Slovenia (Slovenian Insurance Supervision Agency, 2011).

Since the concentration by types of investments is higher with life insurance technical reserves, we took into account the two most important items in each country. As for non-life insurance, we considered the three biggest items. Higher diversification of investments may lead to a conclusion that, in certain countries, insurance companies play a more significant role in equity market development and economic growth than in countries where it has been reduced to one or two types of investments. Naturally, in order to be able state this as a fact, it would be necessary to conduct a more comprehensive study of the composition of certain items.

The data presented in Table 4 clearly show that Serbia has the highest level of concentration of investments of technical reserves. This can be seen in a percentage share of the key form of investment, as well in the sum of the first two items. In most countries, life insurers mostly invest in government securities. Nevertheless, their composition should be subject to study, too. While in Serbia the two types of Eurobonds account for the entire amount of government securities, in Croatia, which comes second in respect of the share of the most important item, it is accounted for by the government securities of three issuers: the Republic of Croatia, Croatian National Bank and Croatian Bank for Reconstruction and Development. Such a fact certainly diminishes the risk of high share of government securities in the investment portfolio of life insurers. It should also be pointed out that such high level of Croatian insurers' government securities is predominantly the result of the statutory regulations in Croatia, which prescribe that at least a half of life insurance technical reserves must be invested in this type of securities.

TABLE 4. CONCENTRATION OF TECHNICAL RESERVES INVESTMENTS OF LIFE INSURERS BY KEY ITEMS

Type of investment, Percentage of total

Country	Rank		Share of the first two
	1	2	
Serbia	Government securities 83	Bank deposits 12	95
Bulgaria	Bank deposits 43	Government securities 24	67
Croatia	Government securities 73	Bank deposits 11	84
Macedonia	Government securities 37	Securities from foreign insurers 35	72
Montenegro	Bank deposits 70	Bonds 17	87
Romania	Securities traded on a regulated market and shares in investment funds 41	Government securities 36	77
Slovenia	Government securities 34	Equity securities 29	63

Source: Insurance market reports

In respect of the amount of share of the key item of life insurance technical reserves in the region, Montenegro ranks third. We consider the share of money which the life insurers deposit in the banks there, too high. This is obviously due to the lack of good offer of bonds (above all, the government and municipality bonds) which should have marked development characteristics. Serbia, too, saw the increase of bank deposits for a while, until the first Eurobonds were issued.

The data presented in Table 5 point to a conclusion that the diversification of technical reserves investments of Serbian non-life insurers approximates the average of the group of analyzed countries. The two major types of investments in Serbia, bank deposits and government securities, hold a similar position in almost all of the reviewed countries. However, Serbia is unfavourably marked by there being premium receivables, which is considered to be characteristic of underdeveloped insurance market and economy of the entire country. Macedonian insurers are obviously facing the same difficulties, since their level of premium receivables is even higher than in Serbia.

TABLE 5. CONCENTRATION OF TECHNICAL RESERVES INVESTMENTS OF NON-LIFE INSURERS BY KEY ITEMS

As at the end of, Percentage of total

Country	Rank			Share of the first three
	1	2	3	
Serbia	Bank deposits 28	Government securities 27	Premium receivables 13	68
Bulgaria	Government securities 32	Investments in subsidiaries and associates 20	Bank deposits 16	68
Croatia	Government securities 29	Bank deposits 17	Real estate 17	63
Macedonia	Bank deposits 66	Government securities 24	Shares 6	96
Montenegro	Bank deposits 65	Real estate 21	Shares 7	93
Romania	Receivables from policyholders and intermediaries 33	Government securities 28	Bank deposits 19	80
Slovenia	Government securities 27	Debt securities 21	Bank deposits 13	61

Source: Insurance market reports

Taking into account the total technical reserves of investments of both life and non-life business, and based on the presented data, we can assess the position of Serbia as being more unfavourable than in most of other countries. This assessment has particularly been valid in case of life insurance investments, which is mainly due to the poorly developed Serbian financial market.

VI CONCLUSION

The findings presented in this paper lead us to a conclusion that investment opportunities in Serbia are rather poor. Life insurers are particularly affected by this problem, as they need a wide array of investments in order to preserve the real value of long-term assets, and be able to fully and orderly meet the liabilities towards their insureds. Non-life insurers are in a somewhat better position, as they mostly conclude annual contracts.

However, in other, and particularly developed countries, the situation is different than in Serbia; namely, in addition to the government bonds, corporate bonds and municipal bonds, mortgage bonds or infrastructure development bonds also account for a significant share. We expect that wider array of bonds shall with us also be the subject of investments in the future. Besides the bonds, we can only assume that asset managers of insurance companies in Serbia, too, would also be interested in certain other items that are not invested in here, such as units and shares in investment funds.

In order to advance insurance investments in Serbia, it is necessary to ensure a growth of the financial market as a whole, as it is currently totally underdeveloped. The Belgrade Stock Exchange, as a place for selling and buying securities, has been utilised to a much lesser degree than desirable; it still does not contribute to the affirmation of domestic equity market much. The process of privatisation of socially-owned enterprises, which is near completion in Serbia, has been carried out practically without including the Belgrade Stock Exchange in the process, i.e. without trading the shares there.

A more diverse composition of insurance investments would indicate a more developed financial market. Therefore, the state, being the most credible issuer of securities, should play an even more prominent role in this area, and so should the banks, other enterprises and local self-government. Taking into account the degree of economic development, these opportunities have not been sufficiently exploited in Serbia so far.

Regardless of the type of investments, one should bear in mind that the investments that were considered safe in the past, do not necessarily have to remain safe in the future. The new approach, in the changed circumstances following the 2008/2009 world financial crisis, implies the necessity of expanding, namely diversification of investments which need to be safe and adaptable. In developed countries, and also in many developing countries, there are far wider opportunities for investments. Although Serbia significantly lags behind in this segment, it is necessary to be persistent, but at the same time ensure that the factors of investment risks and supervisory requests are taken into account.

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ULAGANJA SRPSKIH OSIGURAVAJUĆIH DRUŠTAVA

Sažetak: U mnogim zemljama ulaganja u osiguranje čine značajan doprinos ekonomskom razvoju. To se posebno odnosi na područje životnih osiguranja. Općenito govoreći, osiguravajuća društva se prije svega usredotočuju na sigurnost ulaganja a tek onda na nivo dobiti. Nakon usvajanja Zakona o osiguranju 2004, ulaganjima u Srbiju se pridaje sve više pažnje. Ograničenja koja prate ulaganja u osiguranja u Srbiji su prvenstveno izuzetno slab izbor vrsta imovine pogodnih za ulaganje. Osim države, trebalo bi postojati mnogo drugih izdavača obveznica, kao što su tvrtke. Rad također predstavlja usporedbu ulaganja u osiguranje u državama okruženja. Kako bi se prebrodile još uvijek male mogućnosti ulaganja u Srbiju, potrebno je osigurati puno snažniji razvoj i različitost kako osiguranja tako i financijskog tržišta.

Ključne riječi: ulaganja osiguravajućih društava, ulaganja osiguranja u Srbiji, tržište osiguranja u Srbiji, osiguranje na tržištima u razvoju