

The situation and perspectives of Serbian insurance market in relation to the global world insurance market

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Abstract:

Insurance, by definition, implies dispersion in time as well as in space, which makes it global category. Domestic insurance market and insurance companies need to be ready and open for free competition in the global insurance market. The analysis of the domestic insurance market and the companies operating within it, and the comparison with developed insurance markets should provide answers about perspectives of domestic insurance.

Key words: insurance, personal insurance, insurance market, perspective of insurance, insurance development.

The Insurance Market in Serbia

The Serbia insurance market today is one of the most undeveloped markets in Europe. Several factors have contributed to that, primarily the economic underdevelopment of the whole society, and the loss of confidence not so much in the insurance as the institution as in the companies engaged in insurance business. The lack of competition in insurance market over the last fifty years impeded insurance companies to such an extent that they were completely inefficient as far as taking part in development of the whole society, and the loss of confidence not so much in the insurance as the institution as in the companies engaged in insurance business. The lack of competition in insurance market over the last fifty years impeded insurance companies to such an extent that they were completely inefficient as far as taking part in development of the whole society, and the loss of confidence not so much in the insurance as the institution as in the companies engaged in insurance business. The lack of competition in insurance market over the last fifty years impeded insurance companies to such an extent that they were completely inefficient as far as taking part in development of the whole society, and the loss of confidence not so much in the insurance as the institution as in the companies engaged in insurance business. The lack of competition in insurance market over the last fifty years impeded insurance companies to such an extent that they were completely inefficient as far as taking part in development of the whole society, and the loss of confidence not so much in the insurance as the institution as in the companies engaged in insurance business. The lack of competition in insurance market over the last fifty years impeded insurance companies to such an extent that they were completely inefficient as far as taking part in development of the whole society, and the loss of confidence not so much in the insurance as the institution as in the companies engaged in insurance business.

that they were completely inefficient as far as taking part in development of the whole society, and the loss of confidence not so much in the insurance as the institution as in the companies engaged in insurance business. The lack of competition in insurance market over the last fifty years impeded insurance companies to such an extent that they were completely inefficient as far as taking part in any competition outside the home market is concerned. The attempt to create a free insurance market in the 1990s came to an inglorious end after the collapse of all insurance funds due to the 1993 hyperinflation.

Special attention should be paid to the life insurance market that was a developed market back then. However, due to the monetary instability, the hyperinflation that completely destroyed the mathematical reserve funds, sanctions, etc., at the beginning of the 1990s this line of insurance completely disappeared from the insurance market. In other words, the economic situation that was prevailing in this region completely reflected to the insurance sector. At that time, there were almost a hundred insurance companies operating on the market. After the government introduced regulations in the insurance market, the number of insurance companies was reduced to sixteen; this number was then increased to twenty – two, primarily due to the entry of foreign capital into insurance industry.

In the last then years, particularly since the new modernized Insurance Law was enacted in 2004, the insurance market and the companies operating within it have become free.

In order to understand the actual position of domestic insurance companies, and explore their possibilities and

prospects in the global insurance market, it is necessary to perform the SWOT analysis.

SWOTing the Competition Organizations depend on the market and other, more comprehensive, environment that offers a variety of opportunities, but also carries various threats. The objective of the research of the environment is to identify opportunities and threats is due time. Consistent awareness of the interactive relationship between the organization and the environment provides the basis for secure existence and development. In view of that, the particular attention is paid to recognizing the threats in the market.

A question often asked within the organisation is, how should we react to the changes in the environment? The answer depends on the potential the organization has and can count on in the future. A short overview of certain aspects of competitive forces is set out below.

The extent to which the strategic factors of success represent advantages and disadvantages of the organization is highly relative when considering the in view of the competition. Therefore, the research of competition in terms of its advantages and disadvantages is imperative when the research of environment is concerned.

Business practice in this segment requires that the research of competition is conducted in four steps:

- description of the competition's current strategies,
- diagnosis of the competition's current estimates, and their value in the overall offer,
- identification of the competition's advantages and disadvantages, and
- identification of the competition's future objectives

Overlapping of the results of the research of the competition is of significant value for the description of the competition as it helps determine its overall value and importance all the way down to the competitor that is at the bottom of the last scale. Only then, it is possible to forecast its behaviour in the future and diagnose its individual characteristics.

The difficulties related to solving the problems of research of the competition are in obtaining the prompt, quality, reliable and rational information as well as in the business and overall presentation of the organization itself not only in the past but also today.

The analysis of the current competition on the Serbian insurance market reveals several important parameters:

- dominance of two insurance companies on the insurance market,

- the chief target market for all competitors is the MTPL insurance,
- full focus on non-life insurance lines,
- new insurance companies on the insurance market are expressly oriented toward the market of life insurance,
- the competition has concentrated on capturing the yet uncaptured sections of the market
- sale of new insurance services that have not been offered in this market before

Management skills required for growth and competition – The behavior of a manager plays an important part in the culture of the organization when defining its system of symbols. The choice of the specific management style (for example, authoritative or participative) affects the secondary process of socialization and consequently the form of the organization's operative culture. Its effect is also felt in the mechanism of coordination or in designing the incentive system. Naturally, there is also a reverse effect, namely the organization's operative culture also affects the behavior of the manager.

Strategies that are or have been associated with the organization, and consequently its success or failure, are manifested through its culture. If the organization has a competitive advantage of any kind, then a specific approach to its culture and the culture of individuals is manifested. Interpersonal and social relations in the organization are distinguished by obtrusiveness and egotism of the individuals.

The relationship between the strategy and the organization on the one hand and the strategy and the culture on the other, reflects the same relationship that exists between the organization and the culture.

The specifically constituted organization and the emerging dominance of difference in realization of business operation, information, communication and coordination of activities determine the overall development of culture to a great extent. The matrix organization with its regular potential for conflicts is distinguished by the culture that differs from the culture inherent for the hierarchically oriented and centralized functional organization. The matrix organization places high demands on the preparedness of the associates, acknowledges conflicts and the way they are solved, and in this way contributes to the organization being developed in a direction different from the one expected in the functional organization.

The relationship between the abovementioned components of strategic management arises from the fact that the choice of the organizational structure depends on the dominant values that are the part of the uniform culture in their own right.

As for the aspect of personnel management is concerned, it is necessary to consider the demands that the "personnel" potential as a source of the organization's

relevant forces, has to meet. There are two key demands, the degree of realization of which has a crucial impact on the efficiency and efficacy of the personnel in the organization: working ability and working aptitude.

Working ability refers to the ability of the individual to carry out a specific task. It refers to the "can-do" statement and the (professional) qualification of an individual or associate. Individual working ability is determined by specific mental, sensory, cognitive and affective abilities.

As for current players in the insurance market, the two leading insurance companies are distinguished by the outstanding competency of employees, permanent education and advanced training. Competency, namely the expertise and skills are the qualities that have even been prescribed by the National Bank of Serbia through taking the test to obtain the license to perform insurance operations. The fact that insurance is not studied at the universities of Serbia has forced the insurance companies to provide for their personnel's training themselves.

Positive image of insurance products – The image of a product (insurance services) implies components that consumers associate with its specific qualities. Components are observable and represent constant qualities to which an individual constantly relates to in a positive or negative way. It refers to the hypothetical value of the product, which is recognized based on comparison of the criteria presented on a representative scale, where extraordinary-negative qualities of the product are at its ends. Its image is distinguished by its multidimensional qualities. The individuals' various opinions about its qualities are integrated into the clients' informed opinion about the product image. Although subjective, thus perceived image is stable and slow to change. The individual accepts the fact that what has happened is important, rather than inevitable or objective. A product image is a simplified but subjective portrayal of the reality. As it is impossible to include all its qualities in the analysis, only the key dimensions, significant to the relevant user, are taken into account.

The product image fits perfectly in its recognizable portrait. What is involved here is the "package" of qualities required to meet the need and demands of clients. After a while, every attempt to bring about radical changes results in the provider experiencing negative consequences. The system of management objectives in the strategic component of business potentials, where marketing and its strategic alternatives holds a special position is the real remedy for elimination of these and other weaknesses of the image of the product.

Knowledge as the means of maintaining competency, innovative development and introduction of new products – In terms of the realization of the tasks, the education and professional development should determine the necessary professional qualification of the associates, namely influence his working ability in the first place. Development

serves to acquire a real qualification or to adapt the current qualification to new tasks or conditions (for example, using new technology in administration – personal computers, computer software etc.) This is particularly important for insurance companies which are engaged in selling the so-called "products not in demand", such as various forms of life insurance.

However, this type of qualification has been promoted by two leading insurance companies through conducting their own education and development programs. One of these two companies has a good cooperation with institutions of higher education, where their employees receive education and skills in this area.

In times distinguished by extremely dynamic and complex environment, and from the point of view of the organization, adapting the professional qualification of the personnel is of paramount importance. Here, particular significance is attached to the professional development of the management. In this process, there is traditionally a need to reinforce professional and expert knowledge in the area of management (for example, risk management, insurance control, designing, planning). The familiar instrument of education with regard to the particular when changes are brought about in the environment of the organization. In addition, it seems that the management heaving adaptive and interpersonal skills (sensitivity to the environment, ability to relate, and develop utopian thinking) is particularly important, especially in a discontinued environment. Such instruments of education have also been present within the area of the organization. Seminars for managers where ideas and experiences are exchanged are often held in the insurance company itself; seldom are they organized outside a company.

Adequate number of the qualified sale personnel – The number of the qualified sale personnel is directly related to the volume and size of the market. Taking into account the increasing number of insurance intermediaries (brokers) and agencies, and natural persons having the license to provide insurance services, every number of insurance collectors in the company is considered to be the optimum. Consequently, the more qualified insurance collectors there are, the higher the premium underwritten by the insurance company.

Insurance companies shall turn to insurance intermediaries and brokers for insurance acquisition, and thus shift the staff costs to these organizations.

Consequently, the intermediaries and agents will have to increase productivity and reduce their operating costs, in order for the commission paid by insurance companies to include their profit.

The assumed development strategy

With the enactment of the Insurance Law in 2004, the insurance supervision was entrusted to the National Bank of Serbia. In line with the principles of the best international practice, the NBS resolutely embarked on introducing reforms in this sector. Over a year and a half period, the notable growths was recorded in the areas of balance sheet total, premium, and equity, technical and guarantee reserves; the market concentration was reduced, the share of life insurance recorded a significant increase, and the number of insurance companies was reduced from 40 to 22. The stabilization of the insurance market and creation of adequate environment created preconditions to attract serious strategic partners, who are expected to introduce new products and expertise on the market.

The insurance companies found themselves in the environment distinguished by change of "the rules of the game", intensification of competition, change of consumers' preference, and development of information and communication technologies as primary sources of future differential advantages. In such circumstances, the changes in demand or competition require the insurance companies to respond to new market challenges. Insurance companies need to design their strategies taking into account various market circumstances: for emerging markets, for individual branches, for mature and shrinking markets. When designing the strategy for emerging markets (such as the life insurance market) one has to take into account the high degree of uncertainty, not only in terms of the direction and speed of its development, but also in terms of the response of the competition. A new market is distinguished by low entry barriers and lack of basic rules of "the game", so a company has to adapt "on the fly", which requires a higher flexibility. Emerging markets are also distinguished by insufficient knowledge of the competition and perference of consumers. In addition, the following moments should be pointed out:

- Since the potential clients are using the service for the first time, the task of the marketing would be to initiate the first purchase and eliminate the client's confusion with regard to general benefits, characteristics and technology of services
- Due to insufficient knowledge of the market, there might be a problem of choosing the efficient technology and service characteristics that will be preferred by the buyers. Unless solved, this problem may result in the unstable quality of services as well as in lack of the standardization;
- The above stated problems of companies operating in emerging markets call for increased capital as a limitation factor.

With this structure, it is necessary to explore and anticipate new market circumstances so as for the company to be ready to seize the opportunities. The companies that have the possibility to plan their moves, and who have a developed system of monitoring and notifying, i.e. deciphering signals that carry messages about the development of certain opportunities, shall have the initial comparative advantage. The basic strategic dilemma for

the company is whether it should rush to launch a new service on the market, and thus gain the reputation of being the leader in the segment, or wait and leave the risk of development of life insurance to the leader, and later, by entering the already developed market, ensure a significant share. To formulate the strategy for entering new markets, it is necessary to:

- Review the environment factors, the interaction of which creates new circumstances or a new market and, on the basis of that, review the volume and stability of the emerging market.
- Review the basis for segmenting the market, and identify the characteristic of market segments.
- Review potentials of market segments, particularly from the point of view of the market growth, the speed of embracing services, and reaction of the competition.
- Review the present and potential competition, where it is important to get answer to the following questions:
 - o Who is most likely going to be our competition in that market?
 - o What strategy is used by those who have already entered the market?
 - o What strategy is going to be used by the most probable competition?
 - o Is the segment in question fragmented or concentrated?
 - o Can one or several companies gain domination over that segment?
- Review distribution channels, where it is necessary to consider the attractiveness of direct sale against engaging the intermediaries. Motivation of these channels should also be the subject of consideration.
- Review the company's resources, with particular emphasis on identifying areas where competitive advantage could be gained.

Based on the evaluation of the potentials and stability of demand for that particular segment, probable strategies of the competition, and conditions for gaining comparative advantages, the organization should consider the most efficient methods to penetrate the new market. In this process, the risks, costs and income generated from applying various alternatives should be taken into account. The quick-reaction strategy carries a higher risk as the services and the market have not been sufficiently tested, but it enables a quicker generation of income and relatively low costs of development of services. On the other hand, the strategy of hesitation implies reduced risks of insufficiently tested services, however, the investments in the development of services are higher and the generated income lower, due to the late market entry. In any case, the foreign insurance companies are bound to show the increased interest, particularly since the growing number of these companies is forced to seek expansion in the so-called emerging markets.

The small penetration of the Serbian market, particularly the life insurance market, provides additional motivation for foreign insurance companies to enter it. They include, above all, Fondiaria SAI, who entered the Serbian market through purchase of DDOR Novi Sad, then Wiener Stadische, Grawe, Generali, and Uniqua, all serious players in the insurance market. Although all these companies enjoy strong presence in the markets of a number of countries in the region, they are highly ambitious to achieve the same results in this market.

The home leading insurance company "Dunav" could remain under the substantial management control of the government; however, the possibility of the quick privatization of this insurer should not be completely excluded.

The potential insurance market in Serbia is equal to the number of organizations and natural persons from 15 to 65 years of age. The market potential is manifested in the actual size of the market and its growth in the future. The size of the market represents the real potential of the trade in services offered on the home market, where the evaluation of the growth of the market of services, namely the information on the phase of market cycle in which the given insurance service is, is crucial.

If we analyze the actual insurance premium in 2012 in Serbia, we can see that the total premium amounts to USD 766 million, or USD 103 per capita, which categorize this market as the most underdeveloped market in Europe. After comparing these figures with the corresponding figures recorded in the surrounding countries, we can draw relevant conclusion about the potential of the Serbian insurance market.

Analysis of the Serbian insurance market

Breakdown of the number of policies and premium by insurance lines in 2012 in Serbia

in RSD 000

Insurance line	Number of policies	Total insurance premium
1	2	3
Accident insurance	334,818	2,707,809
Voluntary health insurance	293,753	1,733,888
Railway insurance	49	48,115
Aircraft insurance	48	116,210
Vessel insurance	265	75,322
Goods-in-transit insurance	20,239	733,959

Source: The National Bank of Serbia

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Insurance of property against fire and allied perils	146,511	4,320,742
Other property insurances	312,570	7,551,755
MTPL insurance	1,858,972	14,369,486
Aircraft liability insurance	175	189,363
General liability insurance	5,167	709,470
Credit insurance	2,691	544,129
Financial loss insurance	256	62,045
Travel assistance insurance	19,244	11,337
Life insurance	197,268	4,189,469
Supplementary insurance to life insurance	138,511	342,190
Total Life insurance	346,351	4,939,508
Total Non-life insurance	3,203,555	39,840,510

The above Table shows that the total premium in 2012 amounted to RSD 45 billion or USD 771 million calculated at the middle exchange rate effective at the time.

The share of Serbia in the world insurance market is 0.02%.

In line with the dynamics of the growth of economy in Serbia and its population, Serbia could be expected to achieve the 3.1% share of the premium in GPD in 23 years from now (this share was recorded in Poland in 2010). In 25 years, the share of the premium in the Serbian GPD will be 3.36%, which is the percentage recorded in Slovakia today, while in 29 years from now it will be 4.2% as it was in Czech Republic in 2010. Of course, these estimates should not be taken for granted, as many tendencies in the insurance market are accelerating. This is particularly true when talking about the life insurance market in general, and when talking about the life insurance market whose share in the overall insurance is progressively growing.

The market structure is distinguished by three elements: competition, agents and intermediaries, and insureds.

The competition - there are 22 insurance companies operating in Serbia at the moment. Almost all of them are engaged in all insurance lines, both life and non-life. Non-life insurance is the prevailing line with all insurance companies, and obligatory insurance classes account for the largest share, specifically MTPL insurance.

Whether the markets are stable or volatile, depends on the barriers to market entry. In principle, it can be stated that the higher the barriers on entry or exit the market, the greater the stability of the market form.

The insurance market in Serbia is very much open, and that is reflected in the fact that national insurance companies are taken over by the powerful and influential insurance companies.

Perspective of the Serbian insurance market

Although one of the most undeveloped markets in Europe, the Serbian insurance market has its development perspectives as it is intact as far as certain aspects are concerned. By this we imply that some of the basic insurance products do not even exist here, which particularly includes the latest forms of insurance services, such as various types of personal insurances (unemployment insurance, income protection insurance, insurance of old-age dependents, as well as a large number of liability products). All this provides free market space for strong development of insurance sector in Serbia. After the average salary exceeded the amount of 400 euros net, the demand for insurance services has become effective.

In order for the insurance market in Serbia to achieve development, the following preconditions should be met (achieve):

- a) Rise in salaries, namely the standard of living
- b) Stable macroeconomic policy
- c) Increase of confidence in insurance companies
- d) Low inflation rate and currency stability
- e) Increase in the living standard of the citizens
- f) Development and improve sales channels and sales network: Agencies and intermediaries, sale via Internet and banks
- g) Tax relief for payment of life insurance premiums and other incentives introduced by the government that would have a positive effect on increase and further development of life insurance
- h) Strengthen the unions and their interest in protection and financial security of the employees

Recommendations of the European Union point to the necessity of increasing the awareness of the importance of insurance, which is closely related to the degree of the development of the country and standard of living, and thus represent one of the standards that need to be met in order to achieve full integration into the European Union. Insurance companies need to provide answers to the following priority questions:

- a) What are the services they want to present themselves with in the market, and how should it be carried out? (specification and development of services, and policy of insurance services)
- b) In what way they could use the creation of benefits for their insureds to gain advantage over the competition. (policy of servicing)
- c) How to achieve the most efficient communication with the insurance market and its environment? (policy of market communication)
- d) Which channels of distribution to choose and combine?
- e) Which organizational model to adopt in order to optimize costs?
- f) Policy of insurance tariff. Answers to these question will boost the development of insurance companies operating in this region, increase competition, and confirm that the insurance companies are ready to enter the insurance markets in the neighboring countries.

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