

*Full Length Research Paper*

# National bank as insurance supervisor in Serbia as a developing country

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**Serbia is one of the few countries where the central bank has been entrusted with the supervision of the insurance industry. Specifically, this institution carries out supervision of the entire financial sector. The same applies to five African countries. In the aftermath of the crisis of 1990s, marked by the break up of Yugoslavia, civil war and severe economic crisis, the Serbian insurance found itself in serious problems. After it had been entrusted with the supervisory role of insurance in 2004, the National Bank of Serbia made significant steps to establish order in an unstable market. This paper presents general features and analysis of modern supervision of the Serbian insurance. It also sets forth suggestions for revaluation of certain standing issues and for assigning new tasks to insurance supervision.**

**Key words:** Insurance supervision, integrated financial supervision, national bank, supervisory measures in insurance.

## INTRODUCTION

The experience so far shows that, the Serbian market has become significantly closer to current European and world trends in the area of insurance supervision after the Insurance Law was passed in 2004. In this respect, the most interesting novelty reflects a much more extensive content of supervision than before, wider authority of the supervisory body and its determination to execute its tasks. The insurance supervision has now been set on a completely different basis, thus, providing a great contribution to bringing order in the insurance market. Numerous supervisory measures that were imposed in the last six years were both necessary and justified. Nevertheless, we are of the opinion that the time has come for the insurance supervision in Serbia to be

reviewed, which is a subject of consideration and the purpose of this paper.

In order to carry out this research task, we have divided the paper in several chapters. We began with discussing the background of the insurance supervision in Serbia. Then, we highlighted the key features of the Serbian insurance market, which is the subject of supervision carried out by the central bank (here called the National Bank of Serbia (NBS)). Significant attention was paid to the powers of the NBS and actuaries as an important factor in the applied supervision pattern. We also examined the obligations of reporting by the insurance companies. The majority of the paper deals with the analysis of numerous supervisory measures which the NBS is authorised to impose. The paper concludes with suggestions on how to improve insurance supervisions in Serbia.

After the end of the II World War, the National Insurance Bureau was the only insurer in Yugoslavia. No other insurers were permitted to operate in the market, so the state had the monopoly in insurance business. The weakening of the role of the state in the national economy in the 1970s brought about the introduction of a

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**Abbreviations:** **FSA**, Financial Services Authority; **FSAP**, Financial Sector Assessment Program; **IAIS**, International Association of Insurance Supervisors; **NBS**, National Bank of Serbia.

unique system, the so-called workers' self-management, which repressed the role of the market and had long-term devastating consequences for the national economy. There was practically no surveillance of insurance activities.

The 1990s were marked by the dissolution of Yugoslavia, civil wars, the UN sanctions on Serbia as a country that restored its sovereignty after the split-up, hyperinflation and extremely severe situation in the economy. The creditors had extreme difficulties in collecting their receivables, a great number of companies stopped working, foreign trade was almost extinct and there were major layoffs. Insurance market was first regulated under the 1990 law on the bases of insurance of property and persons and then, under the 1996 law on insurance of property and persons. The Ministry of Finance had been the insurance supervisor throughout the whole period, but it performed this activity rather inadequately. The insurance sector was performing poorly, with delays in settling the liabilities towards the insured (statutory deadline for claims payment in Serbia is 14 days), the insurance companies' financial accounts were unreliable, payments of liabilities towards the state were evaded, data were not made available to the public, insurance assets were transferred to the associated companies by investing in stocks and property under non-market conditions.

Malpractices were particularly present in the area of MTPL insurance, handled by the majority of insurance companies as the only business activity. Many companies brought down insurance quotes way below the market price, offering various benefits along with the policy, such as motor oil, shopping coupons and free technical check-ups. Some insurers' policies even read that it was used only for a one-year registration of the vehicle and that the insurance company would not assume any liability for paying claims.

When the NBS took over insurance supervision from the Ministry of Finance in 2004, there were 40 insurance companies, many of which operated against the regulations and insurance code of practice for years, as we have pointed out in the previous two paragraphs. The NBS started bringing order in the insurance sector, in line with the provisions of the new Law. Many of the licenses to conduct insurance were revoked, which resulted in the number of the insurance companies in Serbia being reduced by more than a half in the following two years (Zarkovic, 2006). The largest number of insurance companies, 18 of them, was closed in December, 2004 and January, 2005. At that time, they had about 530,000 unexpired MTPL policies. For example, one of those insurance companies was the company Imperial, which ranked third in terms of the volume of premium in 2003, with the share of 4.6% in the total life and non-life insurance premium. MTPL accounted for about 98% of this company's premium.

Today, the NBS supervises the financial soundness

and legality of operations of banks, insurance companies, voluntary pension funds and leasing companies. Insurance supervision has been regulated under the provisions of the insurance law, and other laws and by-laws. Serbia took a big step towards introducing an integral supervision of the entire financial sector. Within its independent and autonomous function of insurance supervision, the NBS carries out a number of tasks, the most important of which shall be discussed in this paper.

In developed western European countries, a well-established approach has implied the existence of various institutions supervising banking, insurance, and other financial operations, for many years. However, the last decade has been marked by significant changes. A greater convergence of financial services brought about convergence in supervision, too. Many countries have developed various models; one of these models, which implies a full integration of supervision, where one agency is responsible for all providers of financial services, has been introduced in the United Kingdom (UK), the Financial Services Authority (FSA) (Hardwick and Guirguis, 2007), Belgium, the Banking, Finance and Insurance Commission (Klumpes et al., 2007) and Switzerland, the Federal Financial Market Supervisory Authority (Flamée and Windels, 2009). However, neither of these countries has assigned this role to the central bank, as was the case with Serbia. There are about ten countries worldwide, where the central bank supervises insurance. Half of them are exactly in Africa, Eritrea, Ethiopia, Gambia, Guinea and Lesotho (Asia Pacific Risk and Insurance Association, 2010).

However, the latest world developments show that in developed countries too, the insurance supervision is being transferred to the central bank. In the United States, the Federal Reserve Bank had, within the Dodd-Frank financial regulatory reform, established the Federal Insurance Office and thus, is taking over supervision over the majority of insurance business (except health insurance, certain long-term insurance and crop insurance) (Wong et al., 2010).

In the UK, the FSA will be broken up in three sections by 2012. Insurance supervision will be conducted within a subsidiary ("prudential regulator") of the Bank of England. The subsidiary will supervise all financial firms (D'Arcy, 2010).

The world 2008 and 2009 financial crisis obviously reflected on both theory and practice of insurance supervision. It is precisely the non-existence of integrated supervision of banks, insurance companies and providers of other financial services that is stated as one of the causes of crisis, which further emphasizes the necessity of ensuring integrated supervision over all segments of the financial sector (Eling and Schmeiser, 2010). On the other hand, inflexible regulatory and supervisory response to the crisis should be avoided (Swiss Re, 2010a). As can be supposed from the previous paragraph, the increasing number of countries will probably

entrust the unitary supervision to the central bank.

As a result of globalization, insurance markets worldwide are increasingly acquiring international dimension. Consequently, there here has arisen a need for regulators to cooperate and harmonize on the international level, in order to supervise the worldwide insurance business effectively. It is a task that the International Association of Insurance Supervisors (IAIS), established in 1994, is particularly dedicated to accomplish. The IAIS has issued an impressive number of principles, standards and guidance papers as recommendations for member countries (IAIS, 2010). Serbia is also one of the IAIS members.

In addition, the International Monetary Fund (IMF) and the World Bank introduced an external Financial Sector Assessment Program (FSAP) in 1999, with the aim of assisting governments, supervisors and central banks in identifying and eliminating weaknesses of their financial markets. Benchmarks for an insurance FSAP are insurance supervisory principles approved by the IAIS. The latest IMF country report for Serbia, which addressed insurance as a separate topic, was published in May 2010 (Gurenko, 2010). Hence, we can conclude that Serbia follows international developments when it comes to insurance supervision.

## **GENERAL INDICATORS OF SERBIAN INSURANCE BUSINESS**

Serbian insurance business is still underdeveloped. Over the last several years, the market experienced almost no growth in real terms. The key reasons are reflected in the weak economic growth, difficulties in collection of premium from industrial companies and increasing price competition among insurers, the number of which is now constantly growing. The ramifications of the 2008 and 2009 financial crisis additionally contributed to the total premium on the Serbian insurance market dropping from USD 956 million in 2008 to USD 799 million in 2009. According to our estimates, only about 80 types of cover are currently offered, which is significantly lesser than in developed countries.

At the end of 2009, there were 26 insurance companies operating in Serbia (21 companies were engaged in direct insurance, 4 companies in reinsurance and only one company handled both insurance and reinsurance). Out of the companies handling insurance, 7 and 9 companies were engaged in life and non-life insurance, respectively and 6 companies were engaged in both life and non-life insurance.

Following the process of privatization and obtaining of green field licenses, insurance companies in foreign ownership recorded a predominant premium share also in 2009 (92.5 and 60.1% in life and non-life, respectively). Their share in the total assets of insurance companies is 63.8 and 73.1% in the number of employees (NBS, 2010).

The stated indicators show that, Serbia too, has been going through the process of transition to market economics for quite some time now, although, it still lags far behind most of other countries of eastern Europe. Nevertheless, the very enabling of foreign insurance companies to operate in Serbia is not enough to ensure fair and vigorous competition. It is necessary to have supervision based on pro-competitive principles that will ensure regular performance of the market (Klein and Skipper, 2000). Realization of this precondition will be dealt with due attention in the following sections.

The concentration coefficient on the Serbian market is constantly falling. While the two leading companies Dunav osiguranje and DDOR Novi Sad accounted for 70% of the total premium ten years ago, today this indicator is reduced to 48%. It is interesting to point out that the leading insurer, Dunav osiguranje, is today the only company where the capital is state owned with the share of 94.6% (Central Securities Depository and Clearing House, 2010).

If we observe only the non-life insurance premium in 2009, the share of which in the total premium is almost 86%, the highest share has the MTPL insurance (39.9%), which has been the highest, ranked since 2006. Then, follow the fire and other property insurance with 26.4% and Casco insurance with 16.6%. Life insurances have the share of only about 14%; within this segment, endowment insurance accounts for 59.1% share.

We have also provided a comparison of Serbian insurance market with other emerging market economies of the Balkans, Bulgaria, Romania, Slovenia and Croatia. Data presented in Table 1 show that, almost all indicators are more favourable with the compared countries. Only Bulgaria had somewhat lower share of life insurances in total premium, while insurance penetration has been equal to that in Romania. The presented data undoubtedly show that, the Serbian insurance market is still underdeveloped to a large extent, not only in comparison to the markets of developed European and other countries, but also to the surrounding transition countries.

## **THE SCOPE OF THE NBS IN SUPERVISION OF INSURANCE MARKET**

As a supervisory agency, the NBS monitors not only the operations of insurance companies, but also those of insurance agency and intermediary companies, agents, agencies for providing other insurance-related services (assessment of risks and claims, sale of remains of insured items, provision of various intellectual and technical services) and enterprises and other legal entities whose units are engaged in providing other insurance-related services. The Bank issues licenses for carrying out insurance, reinsurance, brokerage and agency activities and operations directly related to insurance activities.

**Table 1.** Serbia compared to emerging market economies of the Balkans in 2009<sup>1</sup>.

Country	GDP per capita (USD)	Share of life insurances' premium in the total premium (%)	Insurance density: Premiums per capita (USD)	Insurance penetration: Premiums (as % of GDP)
Serbia	5,890	13.7	108.2	1.8
Bulgaria	6,267	11.9	158.4	2.5
Romania	7,700	18.4	136.2	1.8
Slovenia	24,000	30.4	1,420.0	6.0
Croatia	14,091	26.4	401.5	2.9

Source: Swiss Re (2010b). World insurance in 2009, Sigma 2. (1) Due to small premium amounts, other countries (Albania, Bosnia and Herzegovina, Macedonia and Montenegro) have not been included in the Swiss Re study.

The NBS also gives approval for business documents and actions provided for under the insurance law, adopts the prescribed documents, processes statistical and other data, keeps registries of the insurance companies to whom it issued the operating license (including the imposed supervisory measures), and considers complaints filed by the insured's, insurance holders and third parties.

In line with the requests of modern supervision (Plantin and Rochet, 2007), the NBS does not interfere with the ongoing operations of an insurance companies, as long as their key indicators of performance are satisfactory. Once a year, the NBS publishes a comprehensive public report on the situation in the insurance market, which includes data on the premium broken down by insurance lines and companies, level of regularity in settling claims, amount and composition of the equity of the insurance companies, their liquidity, adequacy of technical reserves and property in which they are invested, solvency margin, etc.

In addition to controlling the operations of the immediate insurance market participants, the NBS may also supervise the associated companies, in which the capital of the insurance companies has been invested. To that end, it has the right to examine their books, if it is necessary to exercise the supervision of the insurance company. In case another supervisory agency supervises another legal entity, the NBS shall exercise supervision of its operations in cooperation with that agency. In conducting their activities, the NBS cooperates with supervisory and other competent bodies in the country and abroad, as well as with the international institutions and associations.

Taking into account the earlier mentioned, we can conclude that big changes in the supervisory architecture that were introduced in Serbia, fit into the global substantial changes in this domain, which have been made in the pursuit of effectiveness, efficiency and improved coverage of supervisory practices (Masciandaro and Quintyn, 2008).

There are about 40 employees engaged in supervising the operations of insurance companies and other

participants on this market, who work in the NBS insurance supervision department. Supervision is performed indirectly, by collecting, monitoring and controlling of the company's reports and information and directly, by conducting control on the spot, (in the insurance company). Direct control is a method which is commonly applied in other countries, too (Outreville, 1998). It can be carried out without prior notice and the representatives of the supervisory authority should be given access to all the documents related to the insurer's operations.

The NBS has proved to be a far more vigorous regulator than many observers had predicted. Alleged irregularities discovered by the inspectors included tax evasion, false accounting, investing in the owners' other businesses and lending company funds without security. As a result, the NBS initiated 10 criminal proceedings against the owners and managers of certain insurance companies (AXCO, 2009). Most of the proceedings have been finished, but there are still some pending ones.

The current insurance regulation and supervision in Serbia has been designed after the European Union (EU) model, to a great extent. The NBS prescribes insurance companies the solvency capital requirements based upon the EU Solvency I regime. Duly adoption of risk-based solvency assessment and supervision under the EU Solvency II Directive would give rise to compliance between the risk capital and underwritten risks with the Serbian companies, too. It could result in reducing the required risk capital, which would then, lead to lowering of insurance premium for the same level of cover (Gurenko, 2010). One of the basic specifics of the Solvency II regime is that, regulations will not be detailed, as is currently the situation in Serbia and many other countries and instead of a traditional rules-based approach, there will be a principles-based approach (Eling et al., 2007).

#### Actuaries as part of the supervisory model

In many countries, actuaries take part in the insurance

supervisory model. This actuarial function is known as the concept of “appointed actuary” or “responsible actuary” (Danielsson et al., 2001). Although, there are variations to this approach, it is essentially based on the idea that the insurer must engage a licensed actuary, whereas, the actuary has certain obligations related to reporting or certification both towards to insurer and the supervisory agency.

The Serbian Insurance Law introduced the concept of certified actuary, who is an independent and autonomous person and has a significant function in the insurance supervisory model. Issuing a license and supervision of the certified actuary’s work is performed by the NBS. At the moment, there are somewhat more than 40 certified actuaries.

Every insurance or reinsurance company must engage a certified actuary, but he does not have to be regularly employed there. As for the NBS Insurance Supervision Department, they have a special unit for actuarial-statistical operations. The most important segment of the responsibility of the certified actuary in an insurance company has been regulated under the separate decision (NBS, 2005a). This person shall provide his opinion on calculation of premium tariffs and the solvency margin, the adequacy of the technical reserves, financial statements and so on.

A certified actuary at an insurance company is expected to act as the first line of financial control in the company. His opinion can be positive, qualified or negative. If the NBS unit for actuarial-statistical operations questions any opinion of the certified actuary, they will return it for him to review it. The NBS critically reviews and evaluates the work of a certified actuary and insurance company. They can relieve him of his duty or even revoke his license, as a last resort.

There have been debates in the EU in the last couple of years whether within the financial supervision the role of a certified actuary should be separated from the so-called certified risk manager, the latter being responsible for a comprehensive risk management process at the company level. There were also the recommendations adopted for the duties and position of certified risk manager (De Larosière, 2009). The regulations related to risk management in an insurance company in Serbia deal with the overall business risk, independently from the actuarial function. The tasks of a certified actuary have been regulated separately, as we have already pointed out. Everyday practice shows that a certified actuary is, by the very nature of his work, the most informed and thus, the most involved in risk management in an insurance company.

The function of actuarial service as part of the supervisory model implies many challenges. The actuary has to be prepared at all times to assume responsibility for all obligations provided for under the legislation and to act professionally and competently. The function of the certified actuary in Serbia is still underdeveloped significantly, partly due to inadequate number of qualified

and experienced actuaries. The professional actuarial association is still not organized well enough to make significant contribution to development of professional standards of practice and model of the certified actuary.

However, there have been certain positive changes in this segment recently. The NBS has assumed a more positive role in development of actuarial profession and their continuous education. Proceeding from the strategic development plan 2006 to 2009 (NBS, 2005b) and with the aim of improving the actuarial standards, rules of the trade and profession based on international practice, the NBS organized the “Program for improvement of actuarial profession”, in cooperation with the USAID and bearing point.

### **Submission of reports to the NBS by insurance companies**

The first and foremost tools available to supervisory authorities are the imposing on the insurance companies the obligation to report on their operations. This primarily refers to balance sheets, statements, reports on technical reserves and assets. The form of reporting to falls within the discretion of the supervisory authority, which thereby, ensures that their research requirements are met (Outreville, 1998).

The Serbian insurance companies regularly report to the NBS on all important matters pertaining to their operations (business plan, financial statement, amount and structure of the written premiums, technical reserves report, liquidity report, coinsurance and reinsurance report and so on).

The list of documents is very standard and does not vary from that used other countries. Aside from that, the state supervisory authority may request any other reports or data which are of significance for conducting supervision, which has also been the case on other insurance markets.

Although, there were various initial difficulties related to electronic submission of statistical data to the NBS at first, the regular (annual, quarterly, monthly, even half a month) submission of data to the state supervisory agency was introduced in Serbia in 2005. Statistical reporting was thus, laid down on a completely new foundation.

In our opinion, statistical reporting has been carried out rather well, with a well-balanced quality of data for all insurance companies operating in Serbia. When necessary, the NBS carries out additional analyses of statistical data, introducing new statistical reports (new report on commissions and other expenses related to MTPL insurance).

### **SUPERVISORY MEASURES**

There are numerous measures that may be imposed by the NBS. Even though the paper continues with

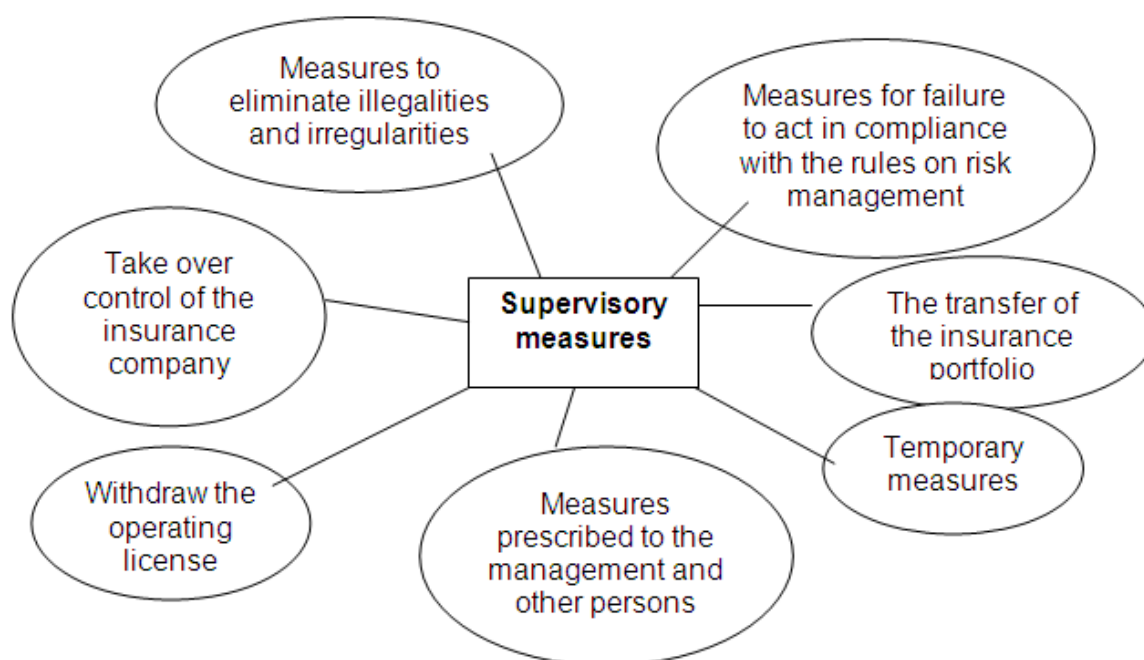


Figure 1. Supervisory measures.

discussion on measures for insurance companies, it has to be taken into account that they are also applied to other participants on the insurance market, whenever the nature of business permits so. In line with the postulates recognized in developed countries (Mueller, 2006), in Serbia, too, the supervisory measures have been clearly and objectively defined under the Insurance Law. They are presented in Figure 1.

In order to be efficient, the measures must be ordered as soon as the supervisory agency establishes that the insurance company is violating the regulations, namely that, it has lapsed into difficulties. In order to be effective, it is necessary for the structure of the regulatory system to reflect the structure of the regulated markets (Abrams and Taylor, 2000). We estimate that, the NBS has a series of possibilities at their disposal to issue appropriate orders and impose fines where there are problems.

However, we are of the opinion that the NBS still has not quite managed to bring order into the MTPL insurance market, which has been a problem since the 1990's. The law on compulsory transport insurance specifies that the commission for sale of MTPL policies cannot exceed 5% of the MTPL gross premium. Nevertheless, we have learnt that, there are a number of companies paying commissions that amount even up to 20 to 30% of the premium. The illegal portion is presented in the accounting books as advertising costs, for example. There are also cases when cash money is directly paid to insurance agents.

### Measures to eliminate illegalities and irregularities

The most important reasons for the NBS to impose measures on insurance companies to eliminate illegalities and irregularities in operations include:

1. The company ceases to fulfil one of the prescribed conditions for carrying out insurance activities.
2. The company carries out insurance operations for which it did not obtain the license from the NBS.
3. The company acts contrary to the rules on keeping business books, financial statements and audit.
4. The company does not submit reports or submit incorrect reports to the NBS.
5. A management member or a member of the supervisory board does not meet the prescribed conditions.
6. The company acts contrary to insurance professional standards towards its insureds' and other consumers of insurance products.

In line with the strictly set rules for elimination of illegalities and irregularities, an insurance company is obliged to submit a report to the NBS on the measures undertaken, so that the NBS could perform another examination to ensure that, the irregularities have actually been eliminated. In case the bank's orders have not been carried out, namely that illegalities and irregularities have not been eliminated, the NBS shall prescribe some other

measures provided for under the law.

Taking into account the experience so far, we can point out that, in the period 2004 to 2010, the NBS had imposed various measures to eliminate illegalities and irregularities in operations to many (if not all) insurance companies in Serbia.

### **Measures for failure to act in compliance with the rules on risk management**

The rules on risk management in Serbian insurance companies have been laid down under the Insurance Law, as well as under a separate decision of the NBS, which in more details addresses a number of issues in this area (NBS, 2007). These rules are based on solutions that have been applied in developed countries for years now.

In case of failure to act in compliance with the rules on risk management, the NBS can impose an insurance company the measures, which may include prohibition to conclude new insurance contracts or cancellation of the current contracts, if their future validity causes damage to the company, limitation of the risk it underwrites, temporary prohibition or limitation of the disposal of assets and the like.

Under the EU Solvency I regime, national insurance supervisors have the right to intervene if the solvency margin drops below 100%. If it drops below 33% action is compulsory. Some supervisors will start action at a higher percentage (Purvis, 2010). Serbia is among the countries where the supervisory authority accepts 100% as a limit.

We point out that, the measures due to failure to act in compliance with the rules on risk management in Serbia have become increasingly important lately. Actually, the majority of current supervisory measures imposed by the NBS are related to the stated issue.

Supervisory authorities worldwide also set strict requirements related to risk management on insurance companies, in order to reduce the risk of illiquidity towards the insureds and other creditors. This area has been the subject of a number of many theoretical and practical researches (Cummins et al., 2007; Bernard and Tian, 2010).

### **Transfer of the insurance portfolio**

There are two types of transfer of portfolio between insurance companies, transfer by their own will or at the order of the NBS. The NBS must give its approval also in case the transfer of the portfolio is the subject of the agreement between two insurance companies, even though this is not part of the supervisory measures of the NBS. In any case, formal consent of the insureds is not required for this procedure and it has also been the practice in developed countries (Bennett, 2004).

In case the NBS establishes such illegalities and irregularities in the activities of an insurance company that jeopardize the interests of the insureds, it may order the company to transfer its insurance portfolio to another insurance company. The insurance company, where the irregularities have been established and will then, submit an application for obtaining the approval from the NBS to transfer the insurance portfolio or a part thereof to one or several insurance companies which have a license to engage in specific type(s) of insurance. The content of the application for the transfer of portfolio has been specified in detail (NBS, 2004).

Transfer of the portfolio was a frequent occurrence on our market when the insurance law was only beginning to be applied, as many insurance companies had their licenses revoked at that time. Later, portfolios were transferred in cases when some companies decided to stop dealing with certain lines of insurance.

### **Taking over control of the insurance company**

The next supervisory measure that the NBS may undertake in order to protect the interests of the insureds refers to taking control over the activities of the insurance company. This measure shall be imposed only in case the previously ordered measures did not have any effect with regard to improving the company's position. Assuming control is extremely important in order to avoid bankruptcy and its aftermath, particularly in case of life insurers.

A sudden collapse of a life insurer is perhaps the worst of all, because policyholders and their dependants often rely completely on the fund for pensions or benefits. After the breaking out of the world financial crisis, setting up of the minimum solvency margin with life insurers became the focus of attention (O'Brien, 2010), since its level signals the possible hazard of bankruptcy. In such circumstances, the insurance supervisor may impose the supervisory measure of taking over the control.

Upon introducing the receivership, the authorities of the management and supervisory board and the shareholders assembly shall be suspended and the receiver shall make the decisions instead, in line with the consent of the NBS. The receiver is obliged to submit a detailed report on the situation in the company within nine months from the company being placed into receivership. If the company recovers, reaches the solvency margin and starts settling its liabilities regularly, the NBS shall render a resolution on the termination of the receivership. However, if, based on the receiver's report, the NBS evaluates that the insurance company has not made any progress; it shall render a decision on withdrawal of the license and initiate liquidation and/or bankruptcy proceedings against the insurance company.

In six years that the insurance supervision is carried out in a new way, the measure of assuming control over the

operations of the insurance company has never been imposed in Serbia.

### **Withdrawing the operating license**

The NBS sometimes may and sometimes is obliged to withdraw the license to engage in certain types or all insurance activities from an insurance company. It is important to note that, the withdrawal of the license does not relieve the insurance company from any obligations stemming from the concluded insurance contracts. In addition, the NBS simultaneously with rendering the resolution on withdrawing the license to engage in insurance activities initiates the liquidation or bankruptcy proceedings of the insurance company. The company shall then, be prohibited to manage its assets until the bankruptcy and/or liquidation proceedings are initiated.

Withdrawing of operating licenses was largely present at the initial stage of implementation of the new supervisory pattern in Serbia. From mid-2004 to mid-2006, the operating licenses were withdrawn from 22 insurance companies, whereby, the number of insurance companies was reduced to 18 (Zarkovic, 2006).

### **Temporary measures**

The experience so far shows that, temporary measures are the primary means applied in supervision of insurance companies by the NBS. If, in the course of the supervision, the NBS establishes that it is necessary to ensure the temporary protection of the insureds' interests or the enforcement of the resolution on withdrawing the license, it shall prescribe one or several temporary measures.

The temporary measures include the prohibition for the insurance company to conclude new insurance contracts or expand the obligations under the valid contracts; the prohibition for the company to manage its property, without the approval of the NBS and the prohibition for the company to implement the decisions of the management board and general assembly of the company, without the approval of the NBS.

The temporary measure shall last until the reasons for its implementation expire, but no longer than six months from the date of its rendering. Temporary measures have been imposed to almost all insurance companies. They were particularly imposed in the first years after the reorganized insurance supervision in Serbia had been introduced.

### **Measures prescribed to the management and other persons**

Another means used by the NBS in supervising the

insurance companies involve the measures prescribed to the members of the management, supervisory board and persons with special authorizations, as well as to the qualified shareholders (owning over 10% of the company's equity). Namely, if the NBS establishes that the stated persons failed to act in compliance with the provisions of the laws and other regulations and thus, caused material damage to the insurance company or acquired an illegal material gain or undertook an activity that is deemed to be a bad professional practice, it can propose the company to undertake the following measures against those persons: dismissal or termination of employment, temporal prohibition to engage in insurance activities or the person's compensating the insurance company for the caused damage (NBS, 2004).

In the 1980's, the legislation in the UK introduced the insistence that persons representing or significantly involved with insurance companies ought to be deemed fit and proper (Hansell, 1999). Although, supervision in the narrow sense does not imply giving or withdrawing of the approval for the management of the insurance company, such an authorization can, to a certain extent, be considered an integral part of the comprehensive control of the insurer's operations (Dickinson et al., 2000). The actual authority of the NBS to propose the insurance company to undertake measures against the members of the management and supervisory board, persons with special authorizations and qualified shareholders should be viewed in this context.

We estimate that the measures against the management and other persons were not frequently applied in the Serbian insurance in the past six years.

## **DISCUSSION**

1. Ever since the Insurance Law was passed in 2004, the NBS has had a positive role in putting order in the insurance market in Serbia. The central bank had to be vested with extensive authorization so that severe deviations on the market could be eliminated and the supervision of the operations of the insurance companies, which was almost completely neglected in the past fifteen years, established.

Our estimates are that such a scope of supervision is still necessary, but also, that the time has come to focus the supervisory philosophy towards control based on business risks.

2. We absolutely support the consideration that the Solvency II regime proposed for the EU becomes a new benchmark for the insurance regulation and supervisory system in Serbia. It would be completely in the interest of both the insurance business and the insureds. Risk-based supervision is an extremely complex and demanding project. In the course of preparations for its implementation, the NBS should pay particular attention to ensuring the required actuarial skills, which will also be



necessary for further maintenance of this pattern and its application in insurance companies.

3. The insurance company is currently obliged to submit the general and business policy acts (the special insurance terms and conditions, premium tariffs and technical bases) to the NBS for approval. We are of the opinion that, the approach to the control of these documents should be changed, so as to be in compliance with the risk-based supervision. For example, there is no need to submit the premium tariffs to the NBS, since in the EU, the regulators' control of premium rates was abolished in the 1990s, so why should it be present in Serbia?

4. Furthermore, the NBS should contribute much more to the development of the underdeveloped insurance market in Serbia, in the future. The NBS could do that by, for example, exerting its influence on the government to specify even more favourable tax relief for life insurance premium or by more active participation in raising the insurance awareness with the general population.

## CONCLUSIONS

Assessing achievements and prospects of nowadays insurance supervision in Serbia as a developing country, it could be pointed out that, independence and autonomy of the NBS and its competence were the main advantages of vesting it with such authority. Transparency in procedures related to decision-making and imposing measures and orientation towards continuous making of reforms to the financial sector are the basic principles that the NBS has followed in exercising supervision in the insurance domain. We estimated, it should be even more decisive in solving some of the remaining problems in the Serbian insurance sector. One of the biggest tasks ahead for the NBS is a comprehensive implementation of the Solvency II process.

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