

COMPARATIVE ANALYSIS OF THE LIFE INSURANCE IN REPUBLIC OF MACEDONIA AND REPUBLIC OF SERBIA

GORDANA VITANOVA

*PHD, FACULTY OF ECONOMICS-PRILEP, UNIVERSITY ST.KLIMENT OHRIDSKI-BITOLA,
e-mail: vitanova04@yahoo.com*

GORDANA TRAJKOSKA

*PHD, FACULTY OF ECONOMICS-PRILEP, UNIVERSITY ST.KLIMENT OHRIDSKI-BITOLA,
e-mail: trajkoska.gordana.01@gmail.com*

DRAGICA ODZAKLIESKA

*PHD, FACULTY OF ECONOMICS-PRILEP, UNIVERSITY ST.KLIMENT OHRIDSKI-BITOLA,
e-mail: dragicaodzaklieska@yahoo.com*

TATJANA SPASESKA

*PHD, FACULTY OF ECONOMICS-PRILEP, UNIVERSITY ST.KLIMENT OHRIDSKI-BITOLA,
e-mail: tatjanaspaseska@gmail.com*

ANETA RISTESKA

*PHD, FACULTY OF ECONOMICS-PRILEP, UNIVERSITY ST.KLIMENT OHRIDSKI-BITOLA,
e-mail: a_risteska@yahoo.com*

Abstract:

The insurance companies are important participants in the capital market. They have significant contributions in providing financial stability and encouraging competitiveness on the financial market. The insurance companies mobilize huge financial resources, investing them into different financial instruments, and so it is real to expect that they will take a role of leading institutional mediators in future. The insurance companies offer life and common insurance.

Policies for life insurance offer possibility to invest into own safety and easier tackling with life challenges and uncertainties. They are especially important for the individual, because he/she is constantly exposed to risks during his/her life and work, that are manifested into decreasing of working ability and lack of resources for life in some defined period.

In the developed countries, there is a tradition for possessing policies for life insurance, but it is not a case in R.Macedonia.

Therefore, in this study, we shall carry out comparative analysis of life insurance in R. Macedonia and R. Serbia, the politics of insurance companies and supervision of the insurance sector, and we shall give proposals for encouraging development of insurance market in these two countries, and for increasing individual's awareness of the benefits of having policies for life insurance.

Key words: insurance market, life insurance

JEL classifications codes: G22

INTRODUCTION

Life insurance is a unique product which provides protection and social safety of the individual. Possessing a policy for life insurance enables removal of the risks that can be expressed through lack of living resources or protection of the individual and his/her family and possibilities for investing into his/her future.

The insurance companies mobilize huge resources by concluding contracts for insurance and issuing insurance policies. There are several kinds of life insurance, i.e.: total life insurance, temporal, hereditary, group, industrial, universal, changing and credit insurance.

Unlike the developed market economies where the insurance companies have important role in maintaining the financial system stability, in R.Macedonia they are in their initial phase of their development. The insurance companies participate with 3.6% in the total resources of the financial sector. In R. Macedonia, banking institutions are still dominant in the financial sector and participate with over 87% into total financial assets.

Due to this situation, the danger of pouring of risks from the insurance sector into other sectors is very low, but here, we can note the importance of the banking system stability for the stability of the insurance sector, because the insurance companies keep one third of their assets in the form of banks deposits.

LITERATURE REVIEW

Insurance has become a significant economic force in most industrialized countries. Employers buy insurance to cover their employees against work-related injuries and health problems.

Life insurance companies take savings in the form of premiums; invest these funds in stocks, bonds, real estate and mortgages; and finally make payments to the beneficiaries of the insured parties. In recent years, life insurance companies have also offered a variety of tax-deferred savings plans designed to provide benefits to the participants when they retire [1].

Many insurance companies offer policies that provide retirement benefits as well as life insurance. In this case, the premium combines the cost of life insurance with a saving program [2]. The broad categories of life insurance products are term, whole life and universal life.[3]

The simplest form of life insurance is the *term insurance policy*, which pays out if the insured dies while the policy is in force. This form of policy contains no saving element. Once the policy period expires, there are no residual benefits. Since term life insurance does not carry a saving feature, it generally has a lower premium than whole life coverage.

A whole life insurance pays a death benefit if the policyholder dies. Whole life policies usually require the insured to pay a level premium for the duration of the policy. In the beginning, the insured pays more than if a term policy had been purchased. This overpayment accumulates as a cash value that can be borrowed by the insured at reasonable rates. Survivorship benefits also contribute to the accumulated cash values. When members of the insured pool die, any remaining cash values are divided among the survivors. If the policyholder lives until the policy matures, it can be surrendered for its cash value [4].

Universal life policies combine the benefits of the term policy with those of the whole life policy. The major benefit of the universal life policy is that the cash value accumulates at a much higher rate [2].

The importance of life insurance companies as part of the financial sector has significantly increased over the past decades, both as provider of important financial services to consumers and as a major investor in the capital market. Beck and Webb [12] use a greatly expanded data set on life insurance consumption to examine the determinants of the demand and supply of life insurance products across countries and over time.

1. Comparative analysis of the insurance market in Republic of Macedonia and Republic of Serbia

The insurance market in R.Macedonia is composed of the Agency for insurance supervision, national bureau for insurance and 15 insurance companies, of which 4 companies deal with life insurance and 11 with non-life insurance and one bank makes bank insurance.

The Agency for insurance supervision is independent and regulatory body in the insurance market. It has a task to contribute for effective functioning of the insurance market for its continuous development, and for protection of the insurees' rights and interests.

The national bureau for insurance represents the insurance companies in R. Macedonia within the international organizations and insurance institutions. This institute issues international green cards for the members' needs, keeps statistical record and makes statistical processing of data of the insurance companies and keeps central system for recording policies and damages of vehicles use.

The insurance companies are predominantly owned by foreign legal entities, i.e. 11 insurance companies are part of the insurance groups located in the EU member states, and 1 company is totally owned by domestic investors.

Development degree of the insurance market is determined by the following indicators: penetration, the insurance representation and participation of the insurance premiums into total insurance premium. The insurance penetration is the insurance premiums participation into the GDP of the country. Contrary to the developed European countries, where penetration is 8%, in R. Macedonia this percentage is very low and at the end of 2014 it is 1.45%. The insurance representation expresses the relation between the insurance premium and number of inhabitants in the country. In R. Macedonia the density degree is 3 694 denars per capita, that is on a level of medium groups of countries in the region. The premium for life insurance participation into the total realized premium for different kinds of insurance is 50% in the developed countries, in the neighbouring countries it is 29%, while in our country it is 8,50%. [5]

The insurance market in R. Macedonia is characterized by moderately competitive market. Herfindahl index (participation of each company into the total assets of the insurance sector) at the end of 2014 is 877,88. As per the analysis by kinds of insurance, there is high concentration within life insurance, mainly due to the small number of companies in this segment. With these companies, Herfindahl index measured as per GPP (Bru) in 2014, is 3.740,38.

The Herfindahl index movement and the penetration indicators measured as per GPP, can be seen in the following table[6]:

Table No 1: The Herfindahl index movement and the penetration indicators measured as per GPP

Gross policed premium (GPP)	2014	2014	2013	2013
	Herfindahl	CR5	Herfindahl	CR5
Total sector	877,88	53,47%	891,77	54,39%
Non-life	1.059,51	60,51%	1.055,77	60,53%
Life	3.740,38	100%	3.818,39	100%

Source: Annual report on the situation and movement of the insurance market in Republic Macedonia, Agency for insurance supervision, p.8

The Herfindahl index movement and penetration indicators measured as per the insurance companies assets , are given in the following table [6]:

Table No 2: The Herfindahl index movement and penetration indicators measured as per the insurance companies assets

Gross policed premium (GPP)	2014	2014	2013	2013
	Herfindahl	CR5	Herfindahl	CR5
Total sector	866,35	54,38%	869.25	52,95%
Non-life	1.150,31	66,68%	1.151.24	65,47%
Life	3.237,96	100%	3.177.59	100%

Source: Agency for insurance supervision, Annual report on the situation and movement of the insurance market in RM, p.8

In the group for life insurance , two companies have dominant participation, i.e.: Croatia life with 43,31% (2013 -43,38%) and Grave with 43,83% (in 2013-43,02%).

In 2014, gross policed premium amounting to 7.630.733 thousand denars was realized , of which 6.742.404 thousand refer to non-life, while 888,329 thousand to life insurance, i.e.non-life insurance participates with 88,36% in the total policed premium, while the life one with 11,64%. It can be concluded that most of the insurance premiums are results of the law obligation of the people in R.Macedonia , which is a characteristic of the undeveloped insurance market. Such a low participation of the life insurance , which in EU countries is 60%, is one more indicator for weak development of the life insurance market.

The financial sector in R. Serbia is bank-oriented , i.e. the banks participate with 92% in the total financial assets, while the insurance market in R.Serbia is on the second place, i.e. it participates with 5,2%.

In R. Serbia , 25 insurance companies work, of which 21 companies deal with insurance, and 4 with reinsurance.From the insurance companies dealing with insurance, 6 deal only with life insurance, 9 only with non-life insurance, and 6 with both life and non-life insurance. From the proprietary capital structure point of view, 19 are with dominant foreign property, while 6 are of domestic property.

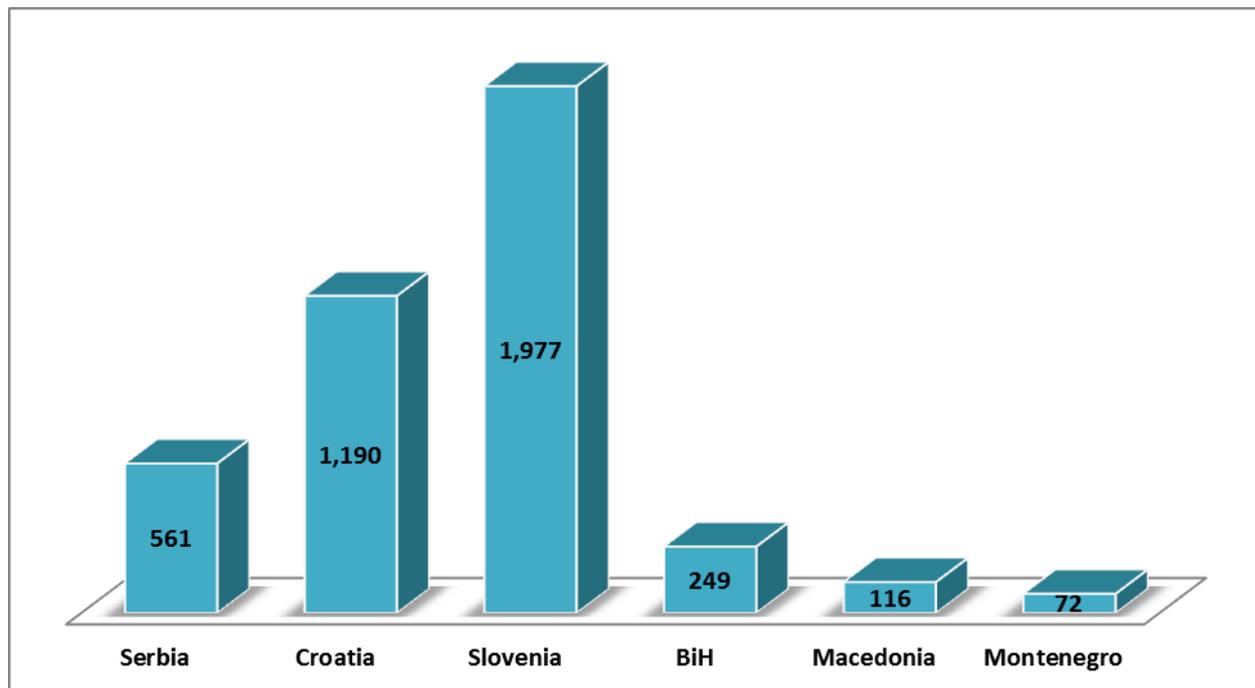
Besides the insurance companies in the insurance market in R.Serbia, 19 bank that have got an authorization for performing works for representing in insurance, work too, then 95 legal entities (companies for mediation in insurance and companies for representing in insurance), 111 agents in insurance (natural persons-mediators), while 15.287 natural persons have got an authorization for performing works for representing into insurance.[10] According to the provisions of the insurance law and the law for NRS, the supervision of the insurance market in Serbia is made by the National bank of Serbia. Primary aim of the National bank of Serbia is establishing of financially safe and stabile insurance market, in order to protect the insurance holders’ interests, where special attention is paid to control of working, way of risks managing and assessment of the risk to which insurance companies are exposed.

As for the penetration, as one of the main indicators for development degree of the insurance market, in R. Serbia it is less than 1,7% of GDP.

As per the participation in the total premium, the insurance market concentration measured by the Herfindahl index, was 1.124 in 2014 (1.112 in 2013).

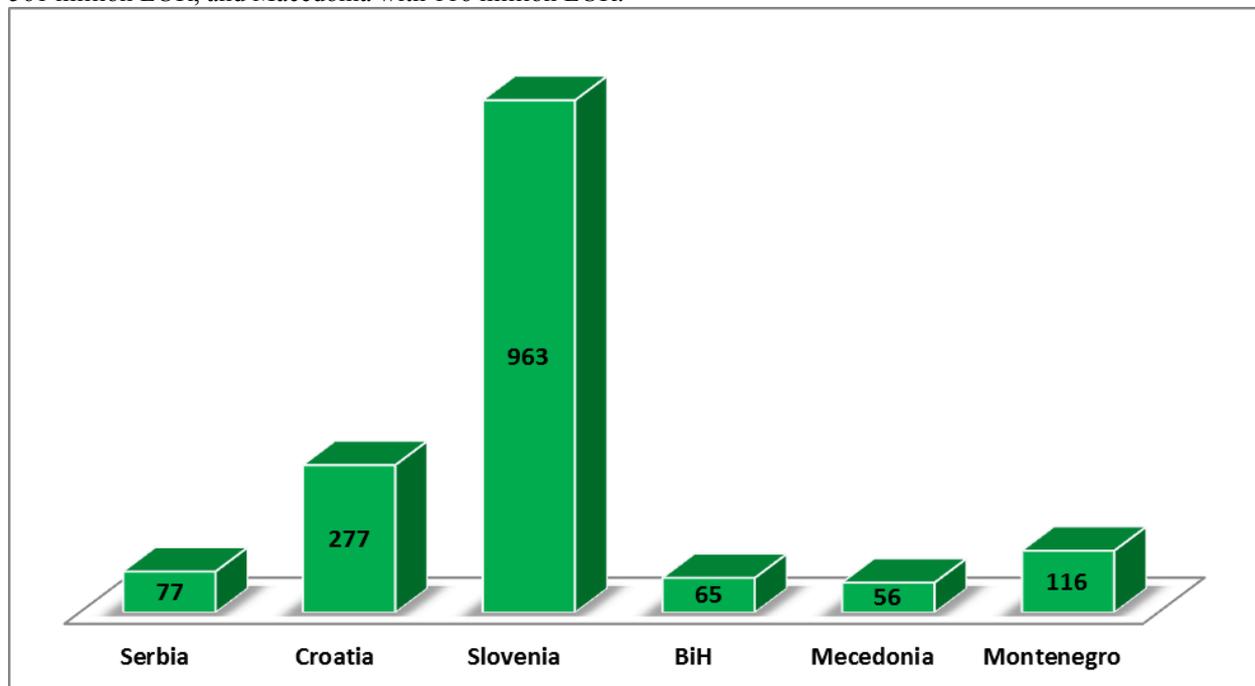
The insurance sector in Serbia, like in Macedonia, lags compared to Croatia and Slovenia, especially in two parameters, i.e.: the premium height (graph 1) and the premium per capita (graph 2).

Namely, the average premium per capita in Europe for 2013 is 1.883 EUR , of which amount 1.124 EUR are for life insurance, and 759 EUR for non-life insurance. In R.Serbia , the average premium for 2013 is 77 EUR, while in R.Macedonia it is 56 EUR.



Graph 1: Total premium for insurance in 2013 (million EUR)

Total premium for insurance at the end of 2013 [11] in the region was 4170 million EUR. Here, Slovenia has the highest participation with 1.977 million EUR, followed by Croatia with 1.190 million EUR, Serbia participates with 561 million EUR, and Macedonia with 116 million EUR.



Graph 2: Total premium per capita in EUR in 2013

Insurance premium per capita shows even bigger differences. Slovenia with average premium of 963 EUR per capita is far before the other countries in the region. In Croatia, the average insurance premium per capita is 277 EUR per capita, in Serbia 77 EUR per capita, while in Macedonia 56 EUR per capita[7].

The premiums for life insurance in R. Serbia participate with 21,96% in the total policed premium for 2013. The premium for life insurance is extraordinary low and it is about 17 EUR per capita on annual level. Comparatively, in Croatia the premium for life insurance is 70 EUR, and in Slovenia above 240 EUR per capita annually.

Table No 3: Percentual participation of the premium for life insurance.

Serbia	Croatia	Slovenia	BandH	Macedonia	Monte Negro
21,96%	27,97%	27,96%	16,40%	10,14%	14,94%

According to the NBS data, in this country as well, insurance of vehicles, that is a law obligation, participates with 34,32% in the total policed premium. Property insurance with 21,6% is on the second place.

2. Portfolio structure of the insurance companies in R. Macedonia and Serbia

The insurance companies mobilize huge resources and place them on the capital market. Here, it is indispensable for them to observe law regulations and the principle of carefulness and safety when placing the mobilized resources, attempting to diversify the structure of their portfolio. This attitude is necessary, because the insurance companies according to the law regulations, are obliged to invest resources in the capital market at the amount equal to the value of technical reserves. [8].

Technical reserves are those resources of the insurance company that serve for covering future obligations coming out from the insurance contracts, and for covering possible losses with regard to those risks associated with insurance works, for which the insurance company is obliged to set aside resources for covering net technical reserves. The investments in resources that cover technical reserves with the companies for non-life insurance, were 5,89 milliard denars at the end of 2014 and they covered 106,06% of the total net technical resources. The resources covering technical reserves with the companies for non-life insurance were placed in government securities issued by R.Macedonia (48,63%), banks (44,79%), shares (0,97%), in corporative bonds 1,1%, and in other financial instruments. (1,88%). The amounts and structure are shown in the table no. 4.

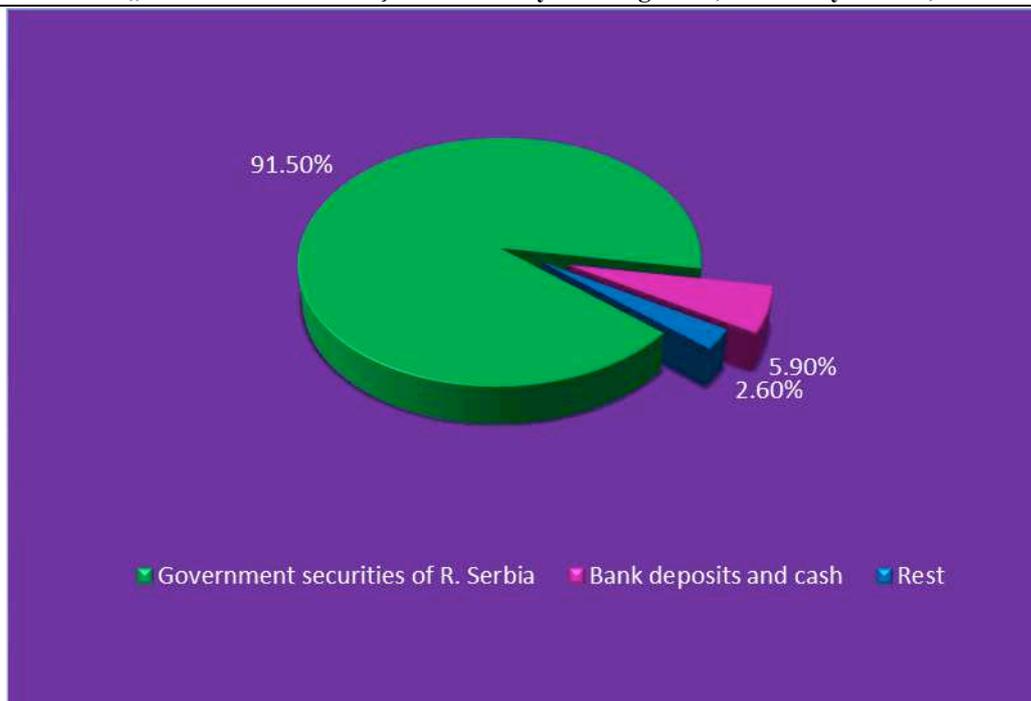
Table No 4: Resources that cover technical reserves with the companies for non-life insurance (thousand denars).

	2010	2011	2012	2013	2014
Bank accounts and deposits in banks	2.330.853	2.714.390	2.324.052	2.318.863	2.635.928
Government securities	855.783	1.564.186	2.514.183	2.896.334	2.864.870
Shares	218.549	138.854	118.346	64.871	56.947
Corporative bonds	23.744	80.221	57.512	0	64.923
Investments funds	15.630	53.889	11.411	101.272	199.987
Other	140.732	411.910	208.255	0	68.171
Total	3.585.291	4.963.450	5.233.759	5.381.339	5.890.826

Source: Annual report for the status of the insurance market in R. Macedonia in 2014, Agency for insurance supervision, 2015, p.21

With the companies dealing with life insurance, the investments of resources from the technical reserves and mathematical reserve are 2,13 milliard denars and have coverage of the net technical reserves of 101,49%, (2013: 101,98%). The companies for life insurance place the most of the resources covering the mathematical reserve into government securities issued by R. Macedonia (76,97%), banks (22,85%) and in other financial instruments (0,21%). The amounts and structure of the investments are shown in the table no. 4.[9]

In R. Serbia, with the companies dealing with life insurance, the coverage of technical reserves is 100%.[10]

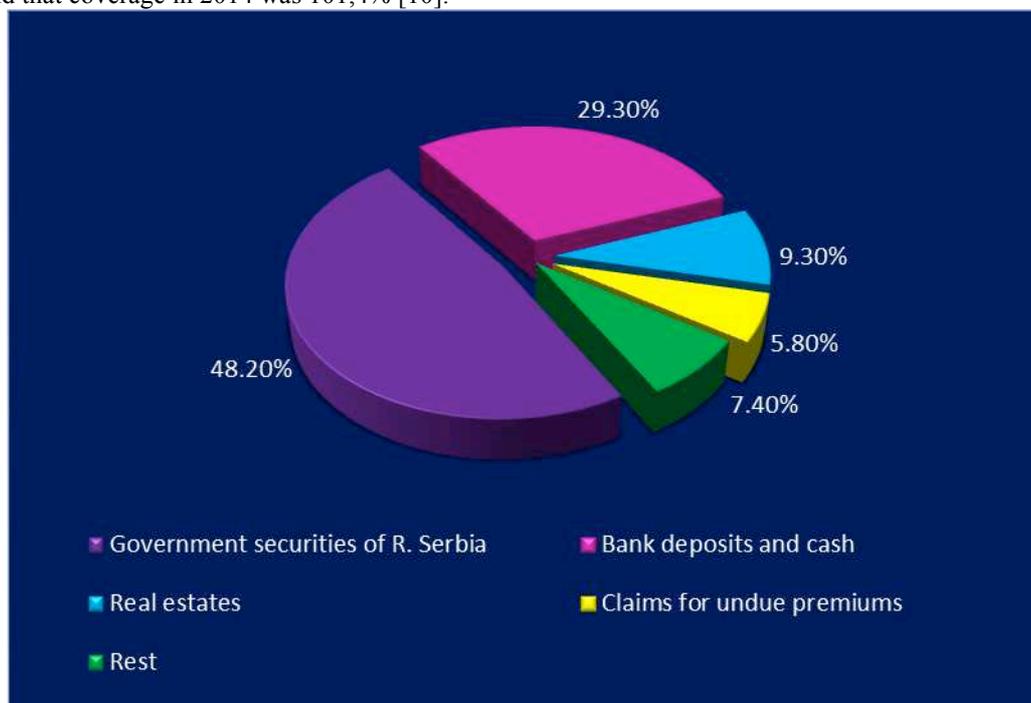


Source: Annual report on the status of insurance market in R. Macedonia in 2014, Agency for insurance supervision, 2015, p. 24.

Graph 3: Structure of the technical reserves coverage for life insurance on 31.12 2014

From the graph, it can be seen that in the structure of the coverage of technical reserves for life insurance, the most frequent are government securities of R. Serbia with 91,5% and bank deposits and cash with 5,9% and with 2,6% the rest. [9]

In the companies that mainly deal with non-life insurance, there is also complete coverage of technical reserves and that coverage in 2014 was 101,4% [10].



Graph 4: Structure of coverage of technical reserves for non-life insurance on 31.12 2014.

According to the data in the graph 4, technical reserves for non-life insurance in 2014 , were mostly covered by government securities with 48,2%, bank deposits and cash with 29,3%, real estates with 9,3% and claims for undue premiums with 5,8% and 7,4% in the rest.

CONCLUSIONS

On the basis of the performed comparative analysis on the status of the market for life insurance in R. Macedonia and R. Serbia, it can be concluded that these markets are characterized by very low level of development, compared to the countries in the region and EU member states.

The analysis of the market for life insurance in these two countries, shows that the possession of a policy for life insurance by the people, although is in slight rise, is still on a very low level and that we are still significantly behind European countries. Namely, in the developed market economies, larger part of the population possesses policies for life insurance, i.e. : in Switzerland 78% of the population, in Germany 70%, in Austria 62%, in Slovenia 21%, in Croatia 18%, in Serbia 8%, and in Macedonia only 1,5% of the population possess policy for life insurance.

There are many reasons for such a situation, among which the most important are the following ones: high rate of unemployment, low living standard of the people, people do not trust institutions, their under-education, and not having a feeling for timely taking over serious measures for financial protection.

In order to encourage development of the insurance market in these two countries, it is necessary to increase the awareness of the people for the benefits offered by the life insurance. For that reason, it is necessary to take the following measures:

- Population education for the importance of life insurance and the way of its functioning
- Greater representation of teaching disciplines in the field of life insurance in the educational programs of university education
- Higher direction of the insurance companies towards clients through strengthening the existing ones and introducing new selling channels
- Offering promotional packages for insurance products by insurance companies
- More aggressive advertisement of the bank-insurance by the banks
- Increased cooperation between the banking institutions and insurance companies
- Tax relief when investing into policies for life insurance
- Harmonization of law regulation in Republic of Macedonia and Republic of Serbia with those from EU.

On the basis of previous facts, the next research which would enrich this issue is analysis on the interdependence of living standards of the population and possession of life insurance policies.

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