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THE EUROPEAN UNION INTEGRATION PROCESS AND INSURANCE MARKET DEVELOPMENT: THE CASE OF THE FORMER YUGOSLAV COUNTRIES

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Executive Summary

Insurance markets which were once well-developed deteriorated significantly after the disintegration of Yugoslavia. Because each of the six newly formed countries of the former state have different institutional and legal structures, and also because of the differing impact of the political problems, these insurance markets are now at different stages of re-development. For all of them, however, the aspiration of joining the European Union encourages reforms which have positive benefits for insurance market development.

Slovenia, which is already a member of the EU, has taken huge steps toward an insurance market close to the EU insurance market norms. Actually, from the insurance market's point of view, Slovenia is the leading new member of the EU. Its insurance market is going to continue with development, but bigger market share of companies with owners from the other EU members is also expected.

Croatia is leading the rest of former Yugoslavia countries in insurance market development as well as the EU integration process. Its insurance market is growing up rapidly in last years and it is very close to the level of some countries which have already become EU member. The same trend is expected in the future with changing the share of the insurance products.

Bosnia and Herzegovina has just introduced new laws adapted to EU standards. The supervisory institutions are also established and they work on implementation of the new laws. It should result with expansion of the market, which has potential much bigger than its current size.

Serbia's new supervisory body has already made significant results in the market regulation. The number of insurance companies has drastically decreased in the last few years, and the trend of the growth of insurance premium is very good.

Montenegro and Macedonia continued with process of adaptation of legislative to EU standards. They are also establishing the supervisory institutions necessary for implementation of the new laws. The insurance market in both countries is expanding, dominated by companies with foreign capital.

This monograph examines basic characteristics of insurance market structure in each of the six countries, and their progress in market development as each country pursues accession into the European Union.

Introduction - EU integration and insurance markets

For most European countries not yet members of the European Union, integration into the EU is a pressing concern. For the former communist countries especially, this integration requires fundamental changes. The transition from communism is a long and involved process. Some central and eastern European countries completed this transition and the path to EU membership relatively quickly, but other countries still have many barriers to overcome.

From the insurance market's point of view, the European integration process reveals many obstacles to establishing viable private insurance markets. In their analysis of the transition from centrally planned economies, Mark Dorfman and Karl Ennsfellner identified several significant issues:

- no recent history of private insurance,
- no recent history of risk management,
- little respect for insurance institutions,
- unstable currencies and inflation,
- undeveloped financial market,
- few places to invest funds safely in private enterprise,
- undeveloped accounting standards,
- "foreign" insurance regulation without local legal precedents,
- little managerial expertise, especially in insurance,
- little actuarial data,
- difficulty valuing former state enterprises,
- absence of regulatory experience.[1]

To make the transition to a market economy, developing countries followed the experience of the developed European countries. Laws and regulations in the new countries have been adapting to EU Directives. State insurance companies have been privatizing, and foreign capital has entered the market. As a result, the number of operating companies has been increasing.

This paper focuses on the development of the insurance market in the former Yugoslav countries. Until 1990 Yugoslavia was a single country with a unique economic system based on worker self management. Disintegration of Yugoslavia and the ensuing wars had a huge influence on the economy and the insurance sector. However, the changes have not occurred in the same way in each of the six new countries.

These countries are at different stages on their way to joining the EU. The EU has a specific approach to West Balkan countries, which requires these countries first to satisfy conditions for a stabilization and association agreement (SSA). After concluding of the SSA, they must apply to be a candidate country for EU membership. When that application is approved, they start with the accession negotiations. The table at the top of the next page ranks each country according the stage reached in the integration process. This ranking, based on the committed conditions for approaching to the next phases of integration (Commission of European Communities, 2007), shows how far each country is from EU membership.

[1] Mark S. Dorfman and Karl C. Ennsfellner, *The Coming of Private Insurance to a Former Planned Economy: The Case of Slovenia* (Washington, DC,: International Insurance Foundation, 1998), and *Insurance in Transition Economies: Poland, Czech Republic, and Hungary* (Washington, DC: International Insurance Foundation, 2002).

Progress toward EU integration in former Yugoslav countries

Rank	Country	Status
1	Slovenia	EU member state
2	Croatia	Candidate country – opened Accession negotiations
3	Macedonia	Candidate country
5	Montenegro	Concluded Stabilization and Association Agreement (SAA)
5	Serbia	Concluded SAA
5	Bosnia-Herzegovina	Concluded SAA

Progress toward EU accession has strong implications for insurance markets. To show that, the next sections will describe the current situation and insurance industry trends for each of these countries.

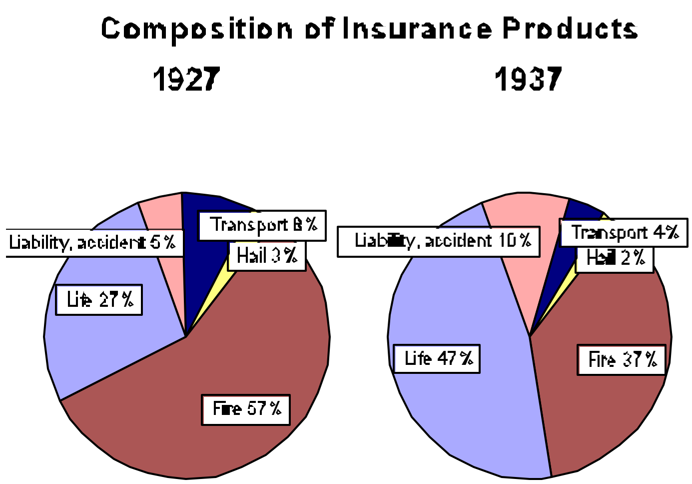
Insurance in the Former Yugoslavia

The countries of the former Yugoslavia did not avoid the problems which plagued most former socialist countries. Changes in the political and economic environment had a huge influence on the insurance sector of these countries.

Insurance before World War II

Insurance had long roots in this region. Even in the medieval period, guilds practiced some techniques of risk management. The oldest law of marine insurance was introduced in Dubrovnik in 1568 (Kočović, Šulejić, 2006).

In the 19th century, insurance in this region was sold by foreign insurers (mostly Italian). The first domestic insurance companies were established at the beginning of the 20th century. Therefore, the modern history of insurance in this area began after World War I. During that period, Yugoslavia had an agricultural economy. The insurance business was concentrated in cities, but most of population lived in the countryside. At that time there were between 20 and 30 significant companies in Yugoslavia. The adjacent chart shows the share of premium going to each class of insurance products in the early years of the 20th century. (Rogers, Schönfelder, and Schütte, 1988).

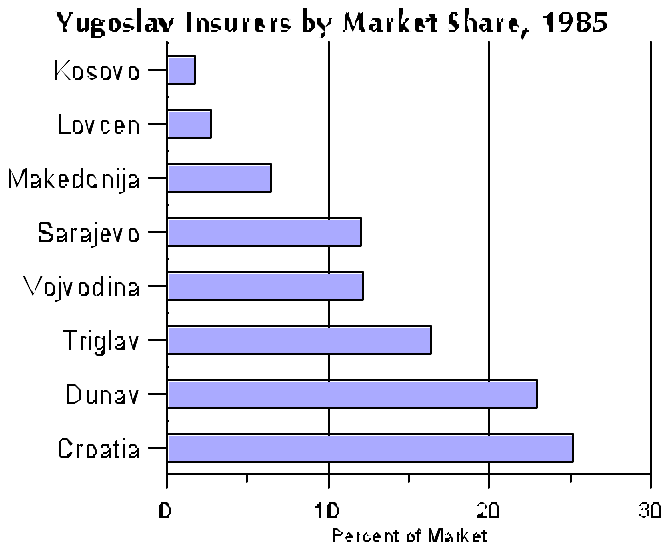


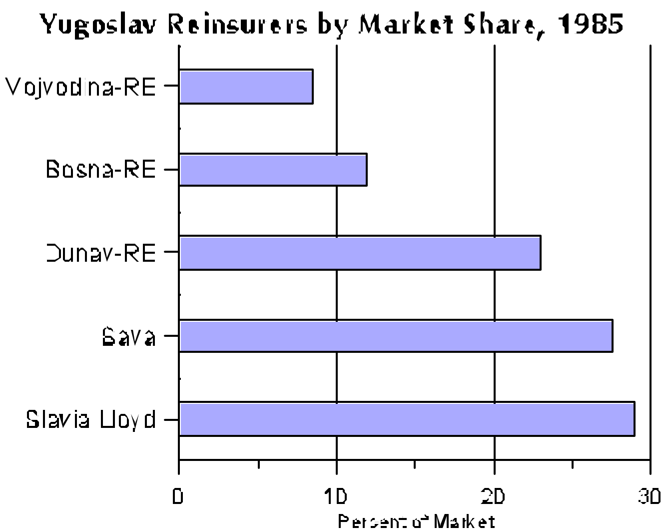
This period is also characterized by domination of the insurance companies with mixed ownerships, although there were a few pure Yugoslavian companies. There was not a uniform insurance law. In different parts of the country insurance was regulated by different laws, each stemming from pre-1918 regimes that ruled portions of Yugoslavia.

From World War II to Yugoslavia's Disintegration

Post-World War II Yugoslavia consisted of six republics: Slovenia, Croatia, Bosnia and Herzegovina, Serbia (with two autonomous provinces: Vojvodina and Kosovo), Montenegro, and Macedonia. The biggest consequences of the war for the insurance sector were decreasing the surrender value in life insurance policies to the minimum (because of hyperinflation and policyholders being unable to pay premium) and significantly reduced non-life insurance business. After the war, the insurance business was nationalized, and foreign (mostly German) companies were expropriated. At that time, the European tradition of insurance in Yugoslavia was interrupted (Andrijašević, Petranović, 1999).

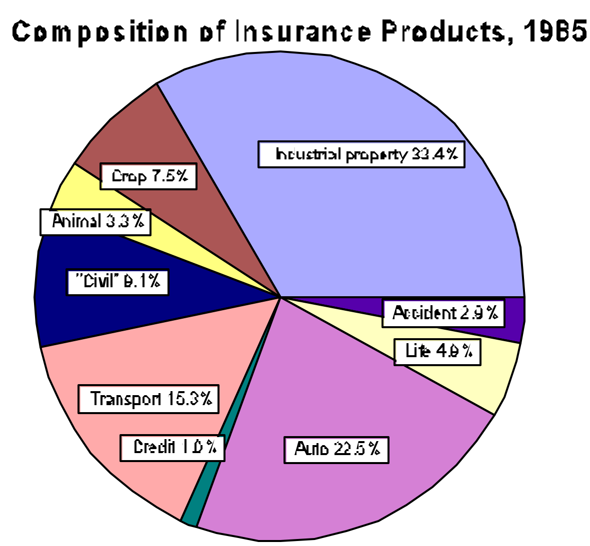
Although Yugoslavia differed from other socialist countries, which were influenced by the Soviet model of central planning, the





system of worker's self-management had a significant influence on the insurance business. Until the end of the 1980s, Yugoslavia's insurance business was conducted by a small number of insurers with state ownership. In the 1960s insurers were organized such that one insurance company covered specific municipalities. During the 1970s, these insurance companies were reorganized and merged into fewer companies along geographic lines. Consequently, the state monopoly continued to exist, and the absence of competition discouraged innovations and development of sector as well. In the middle of the 1980s, in fact, each republic and autonomous province had its own insurance company. For year 1985, the market share of each of these insurers, as well as the reinsurers, can be seen in the tables to the left (Rogers, Schönfelder, and Schütte, 1988).

The monopoly insurers did not do much to improve life insurance products, and the huge inflation rate also undermined its appeal to insureds. Foreign insurers were not allowed to operate in the market, and only one part of reinsurance premium was transferred abroad by retrocession. In 1985 Yugoslvia's insurance premiums amounted to approximately USD 1.6 billion, distributed among various insurance products as is shown in the chart below.



Insurance in the Former Yugoslav Republics Today

Beginning with Slovenia's declaration of independence in 1990, the Yugoslav federation disintegrated during the 1990s. Below we examine the development of the insurance market in each of the six countries of the former Yugoslavia. The legal and institution frameworks are discussed, and then insurance market concentration, premiums by product line, and investments are examined for each country.

Slovenia - An EU Member

Thanks to its geographical position, not having the war on its territory, and fewer political problems in the disintegration process, Slovenia is the only former Yugoslavia country which has already become a member of the EU (since 2004). At the beginning of 2007 Slovenia formally started to use the EURO as its official currency (instead of previous Slovene TOLAR – SIT).

Legal and institutional framework

In its transition process, Slovenia had many difficulties regarding its insurance market. First, after independence Slovenia had only one Slovene insurance company (Triglav), which dominated the whole market. The market share of the insurance companies from other Yugoslav republics was small, so that Triglav's monopoly was an obstacle for improving competition. This problem was solved by dividing Triglav in four parts, which were its previous branches (Adriatic, Tilia, and Maribor). Dividing Triglav's limited management knowledge and already inadequate reserves presented many difficulties in this process, however.

In 1994, Slovenia adopted a new insurance law. This law, the first step towards an EU type of insurance market, provided the rules for supervision of the insurance sector. Slovenia's independent supervisory authority, established in 1995, had a lot of difficulties at the beginning of its work because it lacked a sufficient specialized workforce to manage all problems which existed in the market.

The new law also provided standards for the calculation of reserves, solvency and guarantee funds, as well as accounting standards based on the EU directives. An insurance company was allowed to operate as a public limited company or as a mutual company. To protect domestic insurers, the law imposed limitations on foreign insurance companies operating in the primary insurance and reinsurance markets.

New requests from the EU, which promoted compliance with the Solvency I regime and encouraged a higher share of foreign investments, propelled many changes in Slovenia's insurance legislation. The latest insurance law was adopted in 2000, with many amendments and secondary legislative acts having passed subsequently. Generally, the current Slovenia insurance market is regulated by:

The Insurance Act - official consolidated text (Official Gazette of the Republic of Slovenia, No. 109/06, 114/06 and 9/07),

The Compulsory Motor Third-party Act - official consolidated text (Official Gazette of the Republic of Slovenia, No. 110/06),

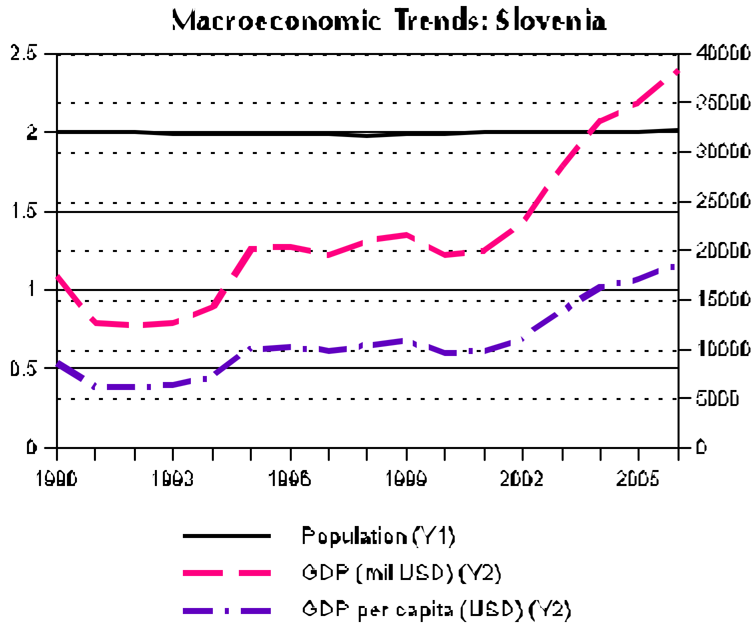
The Health Care and Health Insurance Act - official consolidated text (Official Gazette of the Republic of Slovenia, No. 72/06),

The Insurance Contracts Tax Act (Official Gazette of the Republic of Slovenia, No. 57/99 and 72/05),

The Pension and Disability Insurance Act - official consolidated text (Official Gazette of the Republic of Slovenia, No. 109/06, 112/06 and 114/06).

Besides the Insurance Supervisory

Agency, the most important insurance institutions currently existing on the market are the Slovenian Insurance Association and Slovenian Actuarial Association.



Market overview

As Slovenia prepared for EU accession, its economy was growing. In 2006, Slovenia's GDP was USD 38,197 million with annual growth of 5.7%. At the end of the year its population reached 2.01 million, and GDP per capita was USD 19,024. The adjacent chart shows the stagnation of GDP during the 1990s, but significant growth after Slovenia became a member of the EU (Statistical Office of the Republic of Slovenia, 2007).

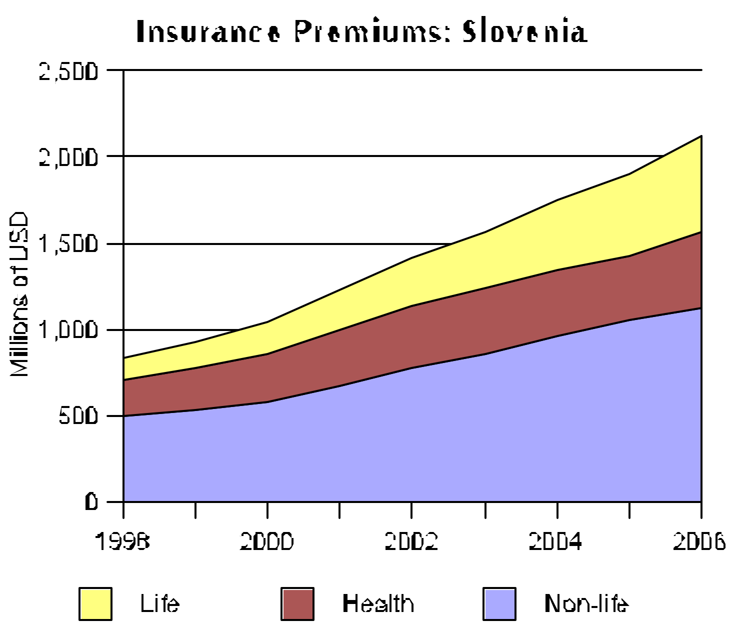
According to the Insurance Supervision Agency's Annual Report for 2006, total insurance premium income in 2006 was USD[2] 2,122.2 million, 26.3 % of which was life insurance and 73.7% non-life insurance (including 20.9% of voluntary health insurance) insurance products. Total premium per capita was USD 1,055.8, and the share of total insurance premium in GDP was 5.7%. Compared to 2005, total premium rose 11.8%. Life insurance recorded growth of 19.4%, health 17.6%, and the other non-life 6.3%. Premium volume and claims incurred for every insurance class for 2005 and 2006 are shown the table on the next page (Insurance Supervision Agency in Slovenia, 2007.

[2] Exchange rate is taken from Bank of Slovenia on December 29, 2006. (USD 1 = SIT 181.9314).

Total premium written and total claims incurred by major insurance classes (mil. USD)[3]

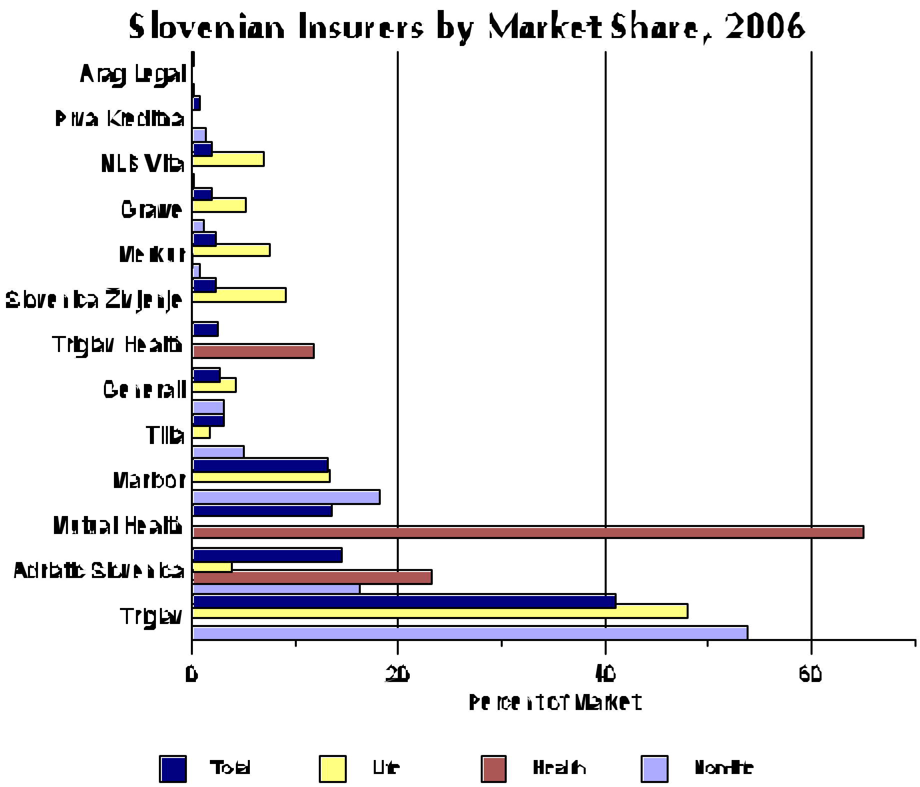
Insurance class	2005 Premiums written (1)	2005 Claims incurred (2)	2005 Claims ratio (2/1)	2006 Premiums written (1)	2006 Claims incurred (2)	2006 Claims ratio (2/1)
Accident	128.6	67.6	0.53	134.7	59.9	0.44
Land motor vehicle	197.3	141.3	0.72	219.9	166.5	0.76
Goods in transit	8.2	2.7	0.33	9.3	2.2	0.24
Fire and natural forces	95.1	41.2	0.43	98.4	44.5	0.45
Other damage to property	102.2	71.5	0.70	115.4	73.7	0.64
Motor liability	402.3	223.7	0.56	416.1	225.4	0.54
General liability	47.3	39.0	0.83	51.7	42.9	0.83
Credit	48.9	29.1	0.60	49.5	35.7	0.72
Other non-life insurance	23.1	7.7	0.33	24.7	20.9	0.84
NON-LIFE (without health)	1,053.1	623.9	0.59	1,119.7	671.7	0.60
VOLUNTARY HEALTH	377.1	350.1	0.93	443.6	383.1	0.86
LIFE	468.3	155.6	0.33	559.0	164.3	0.29
TOTAL	**1,898.5**	**1,129.5**	**0.59**	**2,122.2**	**1,219.1**	**0.57**

The chart to the right shows the strong growth of insurance premium over the last decade. (For the sake of consistency and comparison, all the premium amounts given in this paper are calculated in US dollar equivalents.)[4]



[3] Total claims incurred do not include claim settlement costs.

[4] Inflation and changes in USD exchange rate during these years are not considered in the figure. Therefore, increase in insurance premium is less than it shows, but we will use same calculation for other countries.

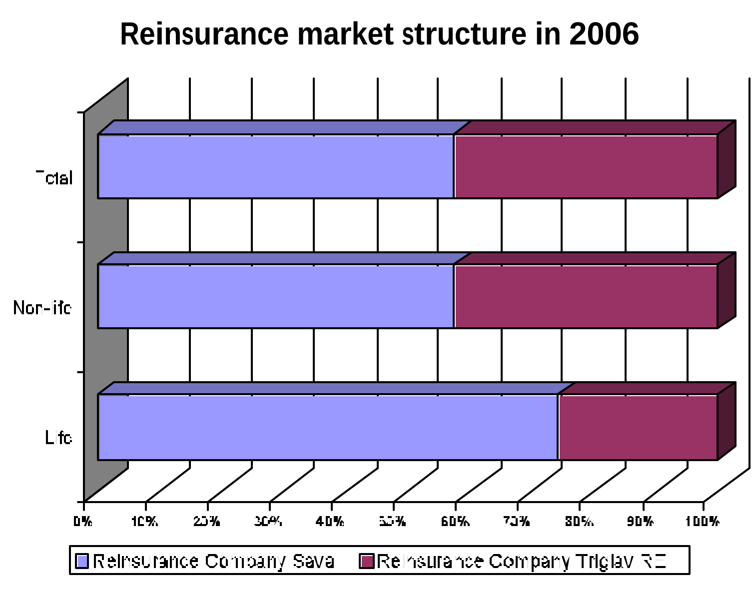


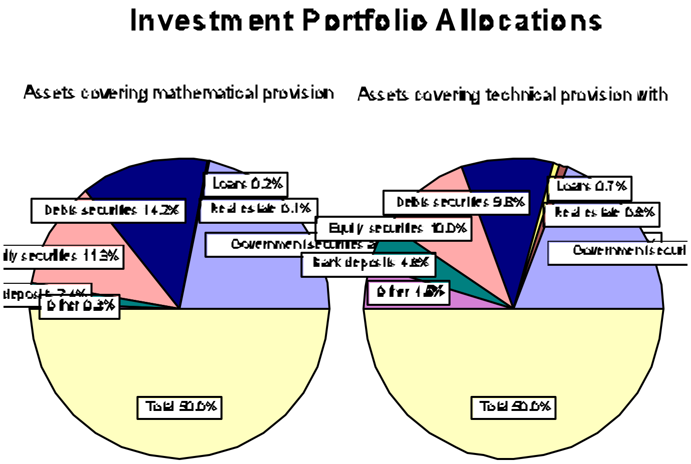
At the end of 2006 Slovenia had 13 insurance companies operating in the market. One of the companies produced only life insurance, two only health, two only non-life, and eight were composite companies.

Slovenia's market is characterized by a high level of concentration. As the table to the left shows, one company (Triglav) has 41% of total premium income and more than half (53.8%) of total non-life premium. The largest five companies have 85.4% of the insurance market, and the first ten 97.3%.

A notable feature of this market is the strength of domestic companies. There are four companies with majority of foreign capital, but they write less than 10% of the total premium. The companies with state ownership cover approximately 60% of total market share. There are also two branches of EU member state domiciled insurance firms in Slovenia, but their market share is not significant. On the other hand, a few of Slovenia's insurance and reinsurance companies already operate in all former Yugoslav countries, Slovakia, Romania, and Bulgaria (Insurance Supervision Agency in Slovenia, 2007).

Two Slovenian reinsurance companies divided USD 238 million of total premium written in 2006, as the chart to the right shows (Slovenian Insurance Association, 2007). These companies are Reinsurance Company Sava and Reinsurance Company





Triglav RE.

The chart to the left shows how Slovenian insurers invested their funds. The assets covering mathematical provisions and the assets covering other technical provisions excluding the mathematical provisions are reported separately. Government securities and securities with government guarantees dominated investments of technical provisions in 2006. Debt securities and equity securities are mostly directed to banks. Therefore, considering bank deposits also, the integration of insurance and banking is intensifying (Insurance Supervision Agency in Slovenia, 2007).

Finally, it is important to note that there were four pension companies which were granted authorization to perform voluntary supplementary pension insurance operations in 2006. Basic statistics for these companies for 2005 and 2006 are shown below (Insurance Supervision Agency in Slovenia, 2007).

Pension companies in Slovenia in 2005 and 2006

	2005				2006			
Pension Company	Premium (mil. USD)	%	Number of insureds	%	Premium (mil. USD)	%	Number of insureds	%
Moja Naložba Pension Company	13.7	12.6	22,591	12.6	15.4	12.2	24,337	12.4
Prva Pension Company	28.6	26.3	60,122	33.5	33.0	26.2	66,556	33.8
Skupna Pension Company	41.8	38.4	59,331	33.0	50.0	39.8	65,344	33.2
A Pension Company	24.7	22.7	37,455	20.9	27.5	21.8	40,596	20.6
Total	108.8	100	179,499	100	125.9	100	196,833	100

In the future, the Slovenia insurance market is likely to grow because saturation of products still has not been reached. Insurance companies will expand their business abroad, but Slovenia's market can also be expected to attract greater interest from insurers based in other EU member states. The new solvency standards resulting from the EU Solvency II Project are also expected in the coming years.

Croatia

Of the other former Yugoslav countries, Croatia has made the most progress toward EU membership.

Legal and institutional framework

Croatia's intention to join to the EU had a significant influence on its insurance regulation, transforming its supervisory system. At the end of 2005 the Croatian Financial Services Supervisory Agency (HANFA - Hrvatska agencija za nadzor finansijskih usluga) was established. HANFA became the supervisory authority for the insurance market as well as for the other non-banking financial services. The previous insurance law was completely changed in light of the EU Directives. To be ready for the EU insurance market, the new law will allow Croatian insurers to operate in EU member states, as well as allowing EU-based insurance firms to sell insurance in Croatia once Croatia becomes an EU member. Until that happens, EU-based insurers can operate in Croatia only by branches. This law also introduced the new solvency standards.

The most important regulations for the insurance market are:

The Insurance Act (Official Gazette, No. 151/05),

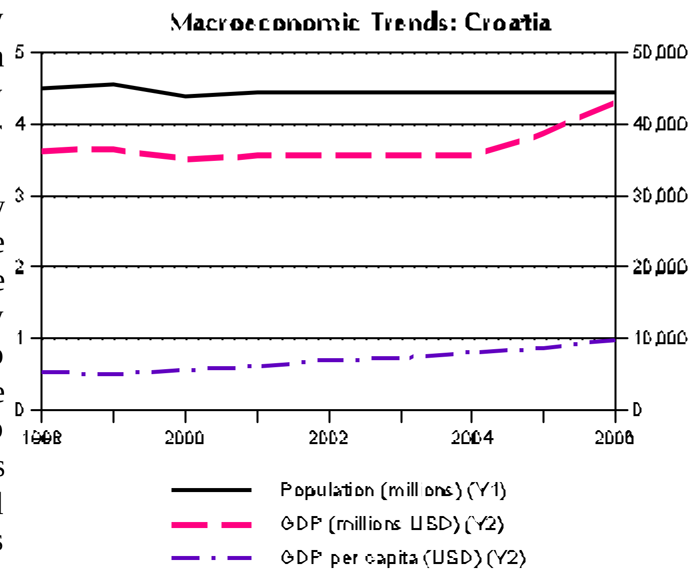
The Act on Compulsory Insurance within the Transport Sector (Official Gazette, No. 151/05),

The Law on Pension Insurance Companies and Payment of Pension Annuities based on Individual Capitalized Savings (Official Gazette, No. 106/99 and 63/00).

Besides HANFA, important institutions in the insurance market are the Croatian Insurance Bureau and the Croatian Actuarial Association.

Market overview

As the following chart shows, Croatia's economy has been continually developing since 1998. Croatia's GDP in 2006 was USD 42.916 billion, 4.8% more than 2005. The population in 2006 was 4.44 million and GDP per capita was USD 9,661 (Central Bureau of Statistics - CROSTAT, 2007).



Total insurance premium income in 2006 was USD[5] 1,466.4 million, 11.3 % more than in 2005. Non-life products comprised 73.5% of the market and grew 10.3% compared to 2005. Life products, which comprised 26.5% of total premium, grew faster, 14.2% compared to 2005. Total premium per capita was USD 330.2 (USD 242.7 non-life and USD 87.5 life) and share of total insurance premium in GDP was 3.3% (2.4% non-life and 0.9% life). Premium volume and claims settled for insurance products for 2005 and 2006 are shown on Table 4.1 (Croatian Financial Services Supervisory Agency - HANFA, 2007).

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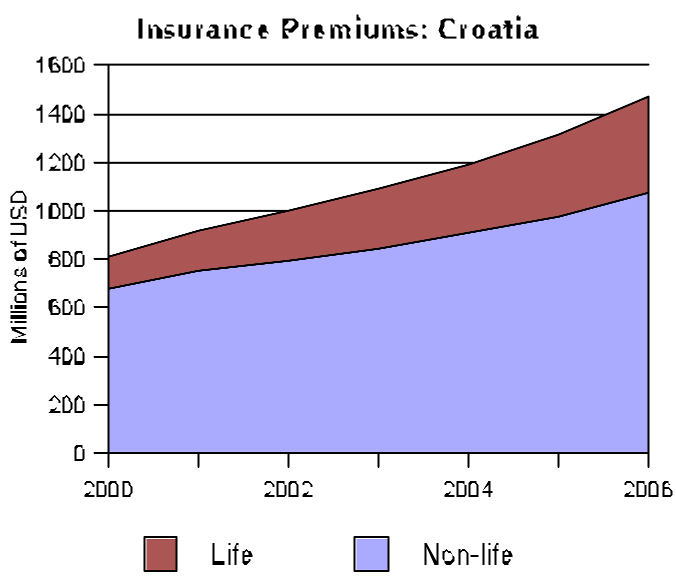
[5] Croatian official currency is KUNA (HRK), and exchange rate is taken from National Bank of Croatia on 30.12.2006. (USD 1 = HRK 5.578401).

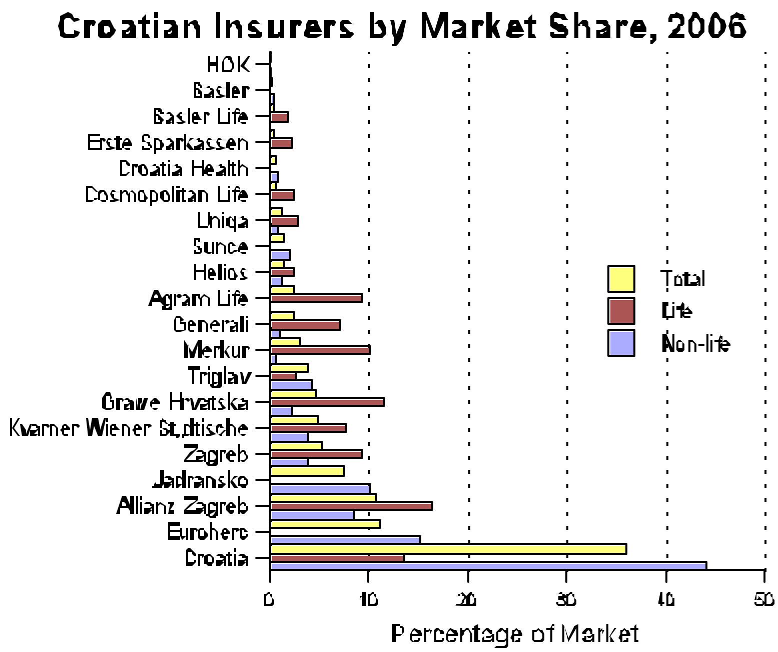
Total premium written and total claims settled by major insurance classes (mil. USD)

Insurance class	2005 premium	2005 claims	2005 ratio	2006 premium	2006 claims	2006 ratio
Accident	84.2	28.2	0.33	89.7	27.8	0.31
Health	33.6	19.9	0.59	39.7	22.6	0.57
Land motor vehicles	155.6	108.3	0.70	171.9	117.5	0.68
Railway and aircrafts	6.9	0.2	0.03	0.4	0.0	0.06
Insurance of aircrafts				6.1	1.2	0.19
Vessels	29.5	12.8	0.43	36.4	13.6	0.37
Goods in transit	11.5	3.1	0.27	12.8	4.3	0.34
Fire and natural disasters	78.9	29.1	0.37	84.1	35.9	0.43
Other property insurance	107.9	73.1	0.68	122.4	72.4	0.59
Motor vehicle liability	402.6	248.4	0.62	439.4	285.1	0.65
Aircraft liability	0.2	0.0	0.14	0.4	0.0	0.03
Use of vessels liability	5.1	1.8	0.35	5.8	1.0	0.18
Other liability	34.8	16.8	0.48	40.2	16.9	0.42
Credit	16.6	17.0	1.03	17.7	26.8	1.52
Other non-life	10.4	4.3	0.41	0.5	0.1	0.24
Insurance of miscellaneous financial losses				8.7	3.3	0.38
Insurance of legal protection				0.5	0.0	0.01
Travel insurance				1.5	0.5	0.35
NON-LIFE	977.8	562.9	0.58	1078.3	629.2	0.58
LIFE	339.8	56.5	0.17	388.1	75.5	0.19
TOTAL	**1,317.6**	**619.4**	0.47	1466.4	**704.7**	0.48

The chart to the right shows the growth of insurance premiums in the period from 2000 to 2006. Both life and non-life insurance have exhibited strong growth over this period.

In 2006 there were 20 insurance companies operating in the Croatia market. Four of them operated only life business, five only non-life, and eleven were composite companies. The chart on the next page shows that the market is less concentrated than in Slovenia. The largest company, Croatia, has 36.1% of the market. The first five companies write 71%





of the total premium, and first ten 90.4%. There are eleven companies with market share less than 3%, and six companies with market share less than 1%.

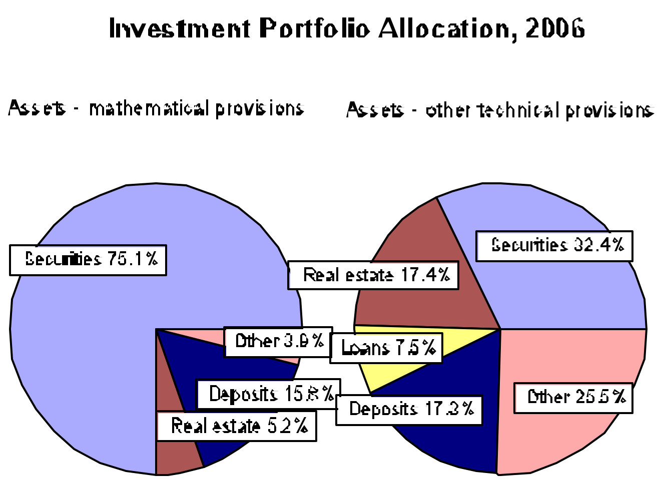
Domestic companies still dominate the market. There are 12 companies with a majority of foreign capital, but they write only 35% of total premium, mostly in life insurance. A few Croatian insurance companies also operate in the other former Yugoslav countries.

Total reinsurance premium written in 2006 was USD 83 million. It was shared between two reinsurance companies (Allianz Reinsurance and Croatia Lloyd).

The structure of investments of technical provision in 2006 is shown in the chart to the right. The assets covering mathematical provisions and the assets covering the other technical provisions are reported separately. Securities are most interesting type of investment, especially for mathematical provisions. Loans with guarantees do not exist among the assets covering mathematical provisions. Insurers are directed how to invest their provisions by law and secondary regulations (Croatian Financial Services Supervisory Agency - HANFA, 2007).

In 2006, there was only one pension company in Croatia (Raiffeisen MOD) with 287 signed contracts.

The future of Croatia's insurance market depends of how soon it will join the EU. In any case, the market is going to expand in the next few years, especially for life and health insurance products. Also expected is liberalization of the Motor Third Party Liability (MTPL) insurance market, which is still the biggest class of insurance in Croatia. MPTL insurance represents 30% of the whole market.



Bosnia and Herzegovina

After the Dayton Peace Agreement in 1995, the new constitution of Bosnia and Herzegovina (B&H) divided the country into two entities (Federation B&H and Republic Srpska (RS)) and the Brčko District (a city on the north of the country which exists as an independent zone). This arrangement impeded the country's economic development and process of integration to EU. New political activities are directed toward constitutional reform.

Legal and institutional framework

Due to the constitutional constraints, B&H has a very complex legal and institutional framework for such a small insurance market. The insurance business is organized and regulated on the entity level, with the Insurance Agency of B&H providing oversight at the state level. The State agency harmonizes the entities' legislation and supervisory work of the entity's agencies, organizes statistics at the state level, and represents the country in international relations.

During the last few years, the legal framework for insurance has changed and adapted to EU Directives. Previously, the two entities' insurance laws were totally different. It was not possible for a company from one entity to conduct insurance in the other entity. New harmonized laws and secondary legislation in each entity are currently in process of implementation. They allow "inter-entity" business so that a company from one entity can have branch operating in the other entity after getting permission from each entity's supervision agencies.

The biggest problems in implementation of new laws are the new solvency standards which differ drastically from earlier standards. Therefore, acquisitions and entrance of foreign companies to the market is now inevitable. Foreign companies mostly enter the market by buying small private companies, but some of them also started with "Greenfield" investments. It is expected that after implementation of new laws, the B&H insurance market will become even more interesting to the foreign companies.

On the state level, there is Law on the B&H Insurance Agency (B&H Official Gazette, No. 12/04). Other laws and secondary legislation on the market are separated but harmonized on the entity's levels:

Law on Insurance Companies in Private Insurance (FB&H Official Gazette, No. 24/05),

Law on Insurance Companies (RS Official Gazette, No. 17/05, 01/06 and 64/06),

Law on Motor Liability Insurance and other Compulsory Liability Insurance (FB&H Official Gazette, No. 24/05),

Law on Motor Liability Insurance and other Compulsory Liability Insurance (RS Official Gazette, No. 17/05 and 64/06),

Law on Intermediation in Private Insurance (FB&H Official Gazette, No. 22/05),

Law on Insurance Intermediation (RS Official Gazette, No. 17/05 and 64/06).

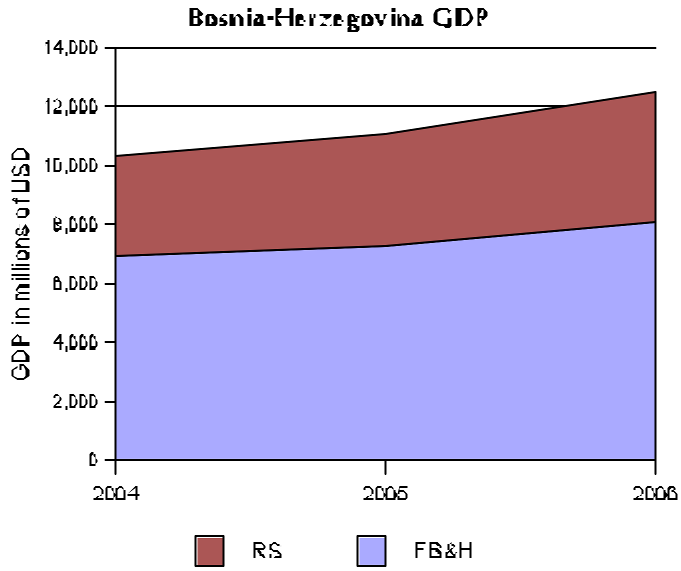
In addition to the state's and entities' supervision agencies, other institutions in the insurance market also reflect its fragmentation. The main institutions are:

- three associations of insurers and reinsurers (on the state and the entity level),
- two protection funds for MTPL insurance on the entity level,
- Green Card Bureau in B&H (for MTPL insurance), and the
- B&H Actuarial Association.

Market overview

The B&H economy and infrastructure was destroyed during the war in the first half of 1990s and needed considerable time to recover. Firstly, it took a lot of time to establish institutions for the new country. The war damage was huge and most of population had been moved from their homes. The process of post-communist transition also had its implications for economic growth. Therefore, the macroeconomic trends have significant meaning only for last three years (Figure 5.1). GDP in 2006 was USD 12,865 million with 6.2% of growth compared to 2005. Population in 2006 was 3.85 million and GDP per capita was USD 3,346. It is important to stress that the B&H official currency, the CONVERTIBLE MARK (BAM), has a strong relation with the EURO (1 EURO = 1.955830 BAM) fixed by the "currency board" which has not been changed since the Central Bank introduced it (Insurance Agency of B&H, 2007).[6]

In spite of the barriers existing on the legal and institutional framework, the B&H insurance market has been expanding in the last few years. During the period of establishing insurance institutions, few Austrian insurance companies were selling their life insurance policies on B&H insurance market without permission of the B&H authorities. Since these policies are not registered in B&H, official data are not a good indicator of the B&H life insurance market potential.



Total insurance premium income in 2006 was USD 242.8 million and rose 8.0% compared to 2005. Non-life products covered 88.9% with growth of 6.2% compared to 2005 and life products covered 11.1% of total premium with growth of 25.0% over 2005. Total premium per capita was USD 63.1 and share of total insurance premium in GDP was 2.0%. The value of claims paid in 2006 was USD million 129.2 (98.6 in FB&H and 30.6 in RS).

[6] Exchange rate is taken from Central Bank of B&H on 30.12.2006. (USD 1 = BAM 1.485065).

Total premium written in 2005 and 2006 by major insurance classes (mil. USD)

Insurance class	2005			2006		
	Federation	RS	B&H (Total)	Federation	RS	B&H (Total)
Accident	13.8	3.9	17.8	15.7	4.2	19.9
Health	4.4	0.3	4.7	4.2	0.3	4.5
Land motor vehicles	19.6	2.4	22.0	23.2	3.1	26.3
Railway and aircrafts	0.0	0.0	0.0	0.0	0.0	0.0
Vessels	0.0	-	0.0	0.0	0.0	0.0
Goods in transit	1.9	0.3	2.2	1.5	0.3	1.8
Fire and natural disasters	11.0	4.2	15.2	11.7	3.2	14.9
Other property insurance	10.2	1.9	12.1	9.9	2.2	12.0
Motor vehicle liability	80.4	46.6	126.9	84.8	48.6	133.4
Aircraft liability	0.4	0.0	0.4	0.5	0.0	0.5
Use of vessels liability	0.0	0.0	0.0	0.0	0.0	0.0
Other liability	1.2	0.1	1.3	1.5	0.1	1.6
Credit	0.7	0.0	0.7	0.5	0.0	0.5
Other non-life	0.0	-	0.0	0.5	-	0.5
NON-LIFE	143.7	59.7	203.4	154.0	61.9	215.9
LIFE	20.3	1.3	21.5	24.9	2.0	26.9
TOTAL	**163.9**	**60.9**	**224.9**	**178.8**	**64.0**	**242.8**

The most important insurance class is obligatory MTPL insurance with market share of 54.9% (47.4% in FB&H and 76.0% in RS). As the table indicates, the Federation of B&H had a more balanced market structure than RS.

As the following table shows, the insurance market in B&H is very fragmented, with more insurance companies than necessary for such a small market. There were 24 companies conducting insurance at the end of 2006. The biggest company, Sarajevo-osiguranje, has 13.7% of the market. The first five companies wrote 41.9% of the total premium, and the first ten 65.9%. There were thirteen companies with market share less than 3%.

Market share and claims ratio of insurers in 2006

Insurance company	Premium (%)			Claims ratio (Paid claims / Premium)
	Non-life	Life	Total	
Sarajevo	14.76	5.43	13.72	0.46
Croatia	8.33	14.91	9.06	0.50
Euroherc	7.51	-	6.68	0.44
Triglav BH	7.08	2.87	6.62	0.38
Uniqa	4.54	16.40	5.85	0.30
VGT	5.49	-	4.89	0.37
Sunce BH	5.08	2.88	4.84	0.28
Bosna	4.93	-	4.38	0.43
Lido	3.97	-	3.53	0.35
Grawe Sarajevo	0.25	29.56	3.50	0.11
Camelija	2.80	-	2.49	0.24
Hercegovina	2.11	3.79	2.30	0.52
Merkur BH	0.22	14.37	1.79	0.08
Bosansko-Njemacko*	1.99	0.00	1.77	0.00
Zovko	1.97	0.00	1.75	0.35
Helios	0.17	2.28	0.40	0.03
Una-Sana*	0.11	-	0.10	0.00
Total FB&H	**71.31**	**92.48**	**73.66**	**0.37**
Bobar	5.56	-	4.94	0.42
Kosig-Dunav	5.51	-	4.90	0.31
Jahorina	4.77	-	4.25	0.36
Drina	3.36	-	2.99	0.22
Nešković	3.26	-	2.90	0.18
Krajina	2.33	-	2.08	0.42
Krajina-Kopaonik	2.10	-	1.86	0.43
Brčko-gas	1.70	-	1.51	0.28
Grawe Banja Luka	0.10	7.52	0.92	0.08
Total RS	**28.69**	**7.52**	**26.34**	**0.32**
Total B&H	**100.00**	**100.00**	**100.00**	**0.36**

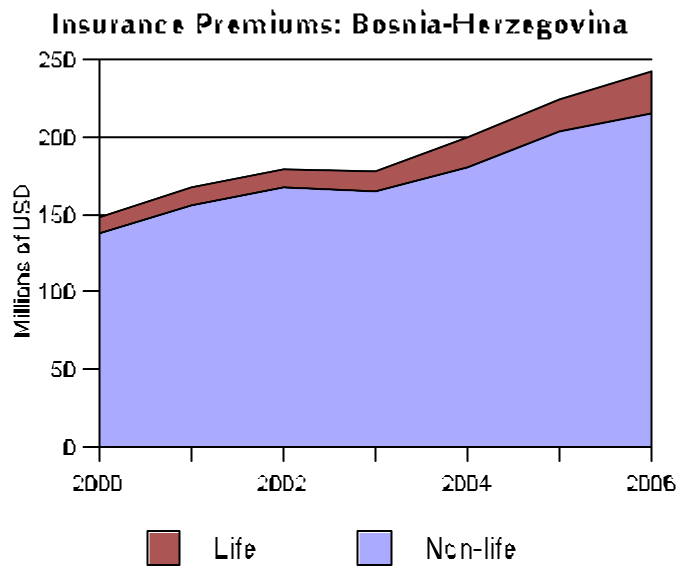
** These two insurance companies had their license to operate rescinded during 2006*

The companies with domestic ownership still cover more than half of the market. There are 10 companies with a majority of foreign capital, but they cover mostly the life insurance market. Foreign companies are from Austria, Croatia, Serbia, and Slovenia.

One domestic reinsurance company (Bosna-RE) operated in the market and its reinsurance premium written in 2006 was USD 20.2 million.

The structure of investments of technical provision is not transparent at all, but insurance companies mostly invest in real estate, stocks, and deposits. Since reform of the pension system still has not occurred, there are not any pension insurance companies operating in B&H.

The B&H insurance market has very good prospects because it is expected to expand after new legislation is implemented. Foreign insurers will be much more interested in a well supervised market. Future reform of pension and healthcare systems will have huge influence on life and health insurance. Expected constitutional reform and preparations for EU membership should result in economic growth as well as the development of a robust property insurance market.

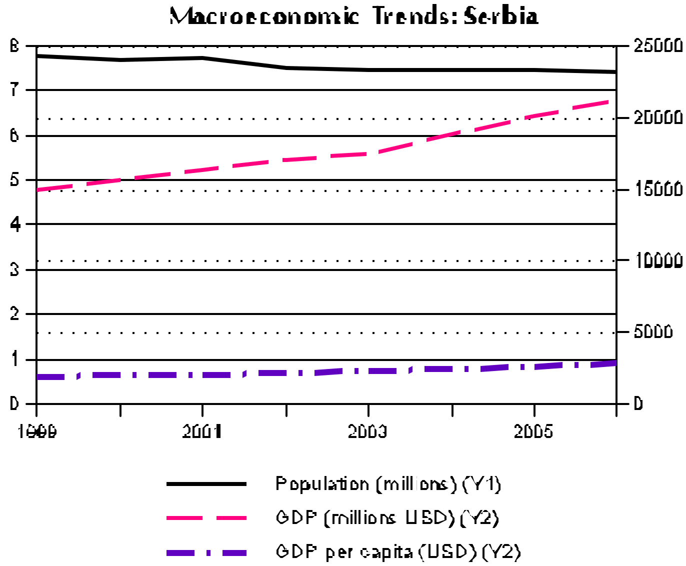


Serbia

After Yugoslavia's disintegration, Serbia remained in a confederation with Montenegro until 2006, when Montenegro separated. The economic blockade, war and many political problems since the 1990s dismissed Serbia from the European integration process. The status of Serbia's former autonomous province Kosovo still has not been resolved. Serbia doesn't control the Kosovo insurance market so that basic insurance data for Kosovo will be presented separately.

Legal and institutional framework

The regulatory framework for Serbia's insurance market changed in 2004 when a new insurance law was introduced. The new law was based on EU directives and was completely different from the previous one. The most important characteristics of the new law were new solvency standards and the designation of the National Bank as a supervision authority. Insurance intermediation also was regulated by this law.



In order to protect insureds and investors, following implementation of the new law the National Bank revoked the licenses of many insolvent insurance companies. This action increased transparency in the insurance market, but left the problem of paying the claims for these companies.

Exercising its supervisory authority, the national bank introduced many additional regulations. The most important regulations in Serbia's insurance market are:

Insurance Law (RS Official Gazette, No. 55/04, 70/04 and 61/05),

Property and Personal Insurance Law (FRY Official Gazette, No. 30/96, 57/98, 53/99 and 55/99 - provisions on compulsory insurance and provisions on public authorizations),

Law on Voluntary Pension Funds and Pension Schemes (RS Official Gazette, No. 85/2005),

Law on Bankruptcy and Liquidation of Banks and Insurance Companies (RS Official Gazette, No. 61/2005).

Other institutions on the insurance market are:

- Associations of the Insurers,
- Association for Insurance Law of Serbia
- Actuarial Association of Serbia.

Market overview

The inflation of Serbia's currency, the DINAR (RSD), and other economic problems impeded the progress of Serbia's insurance market. Despite some positive changes in the last few years, Serbia's economy is still undeveloped. Its population in 2006 was 7.41 million, and its GDP was USD 21,220 million or USD 2,863 per capita. This represented 5.7% growth compared to 2005 (Republic Statistical Office of Serbia, 2007).[7]

Serbia's insurance market has been growing significantly since the National Bank began to supervise it. Total insurance premium in 2006 was USD 639.1 million, a 10.5% increase compared to 2005. Non-life products, which represented 89.4% of the market, grew 9.2% over 2005. Although with only 10.6% of total premium, life insurance premiums grew 22.7% from 2005. Premium per capita was USD 86.2, and the share of total insurance premium in GDP was 2.0%. The value of claims paid in 2006 was USD 257.2 million, and the claims ratio 40% (National Bank of Serbia, 2007).

[7] Calculation is based on GDP at constant prices 2002 and exchange rate taken from National Bank of Serbia on 29.12.2006. (USD 1 = RSD 59.9757).

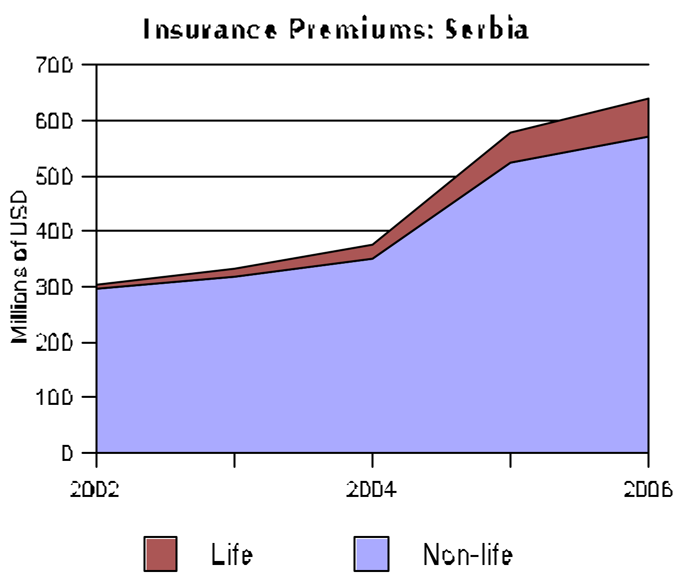
Total premium written and total claims settled by major insurance classes (mil. USD)

Insurance class	2005			2006		
	Premiums written (1)	Claims settled (2)	Claims ratio (2/1)	Premiums written (1)	Claims settled (2)	Claims ratio (2/1)
Accident	37.3	20.5	0.55	37.0	23.3	0.63
Health	13.6	2.5	0.18	21.0	5.1	0.24
Land motor vehicles	72.1	31.1	0.43	82.0	48.0	0.59
Railway and aircrafts	9.9	0.1	0.01	6.7	4.1	0.62
Vessels	1.4	0.9	0.61	1.2	0.8	0.68
Goods in transit	8.8	2.2	0.25	10.8	3.6	0.33
Fire and natural disasters	72.4	17.0	0.24	68.5	17.4	0.25
Other property insurance	118.4	55.7	0.47	119.9	68.3	0.57
Motor vehicle liability	177.5	55.3	0.31	206.7	69.3	0.34
Aircraft liability	0.9	0.0	0.00	4.2	0.0	0.00
Use of vessels liability	0.0	0.0	0.00	0.0	0.0	0.29
Other liability	7.2	1.1	0.15	9.3	1.6	0.18
Credit	3.5	2.1	0.59	3.2	2.5	0.80
Other non-life	0.5	0.0	0.02	1.2	0.0	0.01
NON-LIFE	523.4	188.4	0.36	571.6	244.1	0.43
LIFE	55.0	7.1	0.13	67.5	13.1	0.19
TOTAL	**578.4**	**195.5**	**0.34**	**639.1**	**257.2**	**0.40**

As the above table shows, the most important insurance class is obligatory MTPL insurance, which represents 32.3% of the entire market.

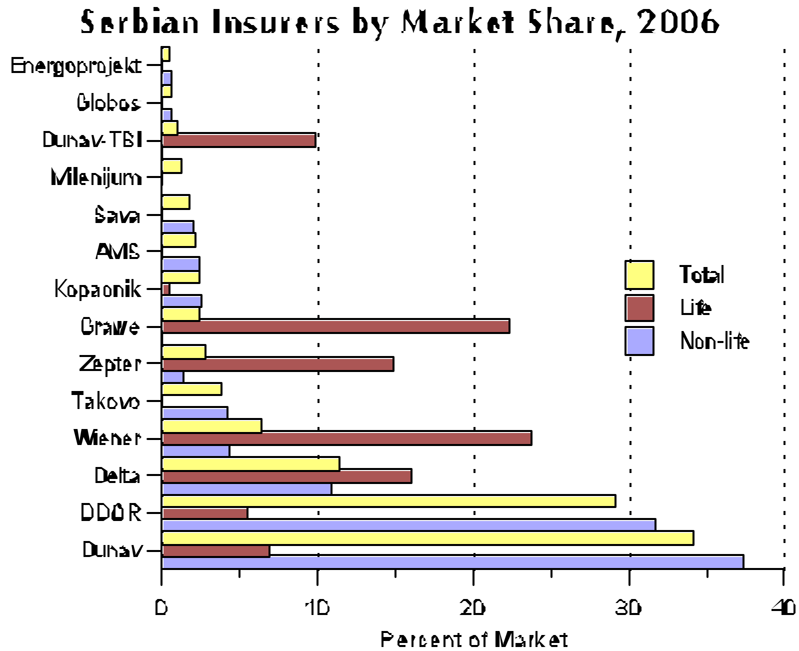
The recent trend of insurance premiums is shown at the right. Growth of both life and non-life insurance has accelerated since 2004.

Fourteen companies remained in the market after the National Bank regulations took effect. Six companies wrote only non-life insurance, seven were composite, and one company offered only life insurance.



As the adjacent chart shows, Serbia's market is very concentrated. The first two (state) companies comprise 63.3% of the market, the first five companies 84.9%, and the first ten companies 96.5%. Nine of the 14 companies have market share less than 3% each.

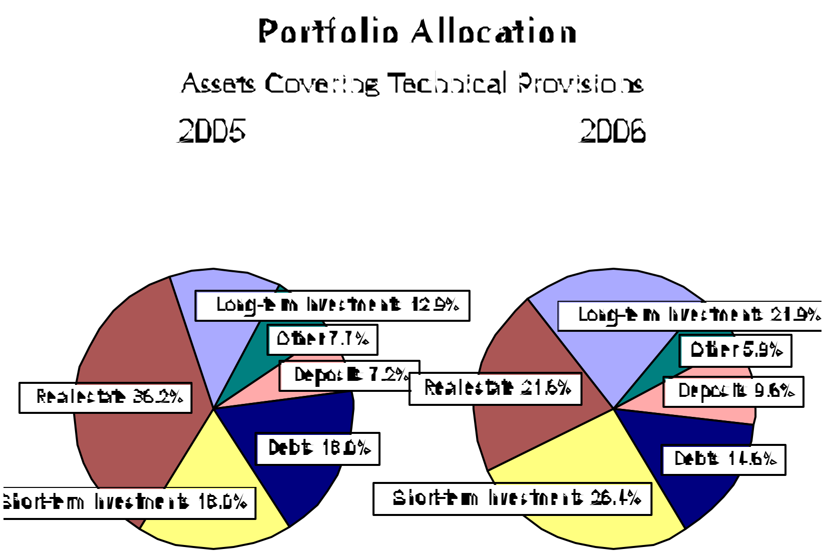
Privatization of the two biggest insurers still has not occurred. Therefore, domestic companies dominate the market in non-life insurance, although seven foreign insurers write 77.6% of the life insurance market.



The chart below shows the changing structure of investments of technical provisions in 2006 compared to 2005. A significant shift away from real estate reflects improved conditions in the capital markets.

Three companies performed reinsurance: DDOR, Delta Generali Reinsurance, and Dunav-RE. Four voluntary pension funds management companies were licensed in 2006: Delta Generali, Raiffeisen Future, Garant, and DDOR Penzija Plus.

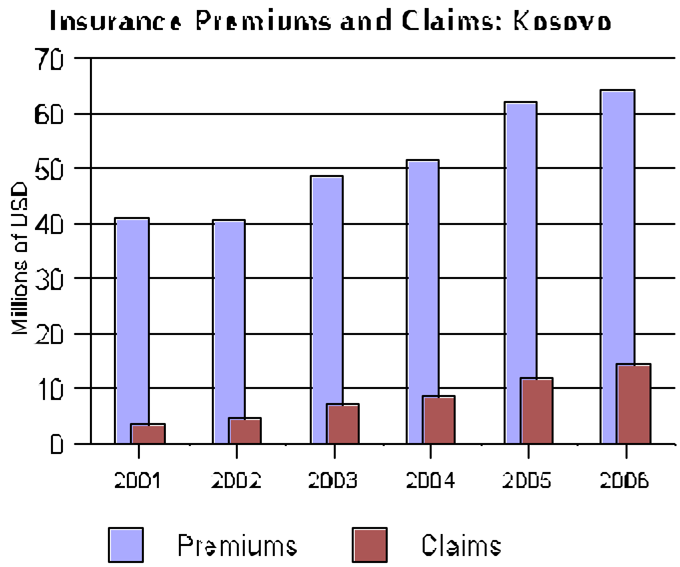
Serbia's insurance market has changed significantly in last few years. Its stabilization will probably encourage more foreign investments, as well as more innovations on the market.



Kosovo

Because of Kosovo's special status, specific legislation known as the Insurance Rules applies. The insurance market is supervised by the Central Banking Authority of Kosovo. Kosovo's population in 2006 is estimated at 2.18 million. GDP was USD 3,212 million, which increased by 3.0% compared to 2005. GDP per capita is estimated at 1,472 USD (Central Banking Authority of Kosovo, 2007).[8]

There were nine non-life insurance companies operating in the Kosovo insurance market. Three of them have foreign ownership (Albania, Croatia, and Turkey). The first private pension fund was licensed in 2006. Insurance premium received in 2006 was USD 64.2 million and increased by 3.2%. MTPL insurance comprises 71.2% of the total market. Premium per capita was USD 29.4, and the share of total insurance premium in GDP was 2.0%. The amount of claims paid was USD 14.4 million, making a claims ratio of 22%. The chart shows the trends of insurance premium and claims paid.



Montenegro

After its 2006 separation from Serbia, Montenegro made a significant leap towards EU accession. That progress was not reflected immediately in the insurance market, but it will definitely have positive influence on it.

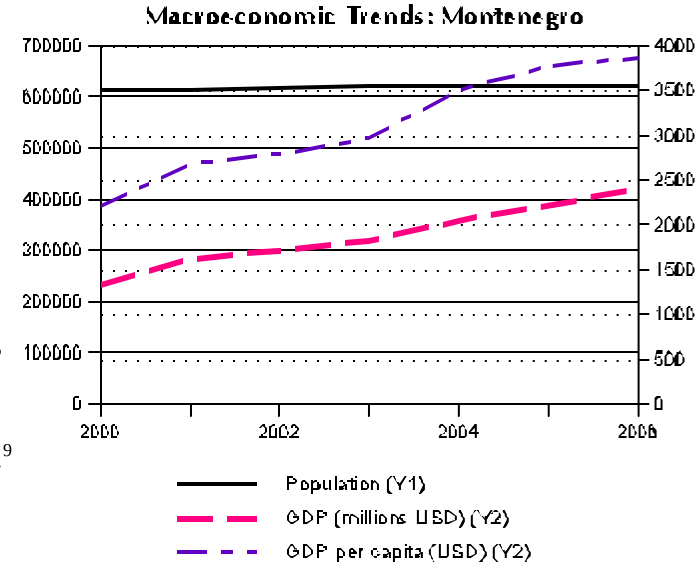
Legal and institutional framework

During Montenegro's confederation with Serbia and while Serbia's insurance market was not well regulated, many Serbian insurance companies operated branches in Montenegro. In 2000, Montenegro's government proposed that all insurance companies had to have headquarters in Montenegro. As a result, only a few insurance companies continued to operate because none of Serbia's insurers established a new company in Montenegro.

Since the process of separation from Serbia took some time, Montenegro was a little late in introducing a new insurance law complying with EU Directives. It is also late with the process of establishing insurance institutions. A new insurance law was introduced at the end of 2006. According to this law, supervision of the insurance sector should be organized by an independent supervision agency. New solvency standards also were proposed. Another law regulating MTPL insurance was introduced in 2007 so that currently the implementation of these laws is in progress. It is expected that the supervision agency will be established during 2007. The National Bureau of Insurers also was established in 2007.

[8] EURO is official currency in Kosovo and exchange rate is taken from European Central Bank on 29.12.2006. (EUR 1 = USD 1.317).

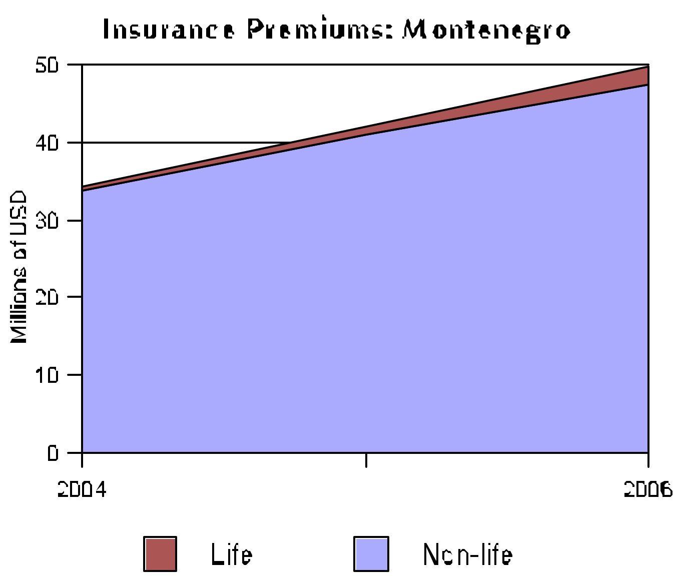
Market overview



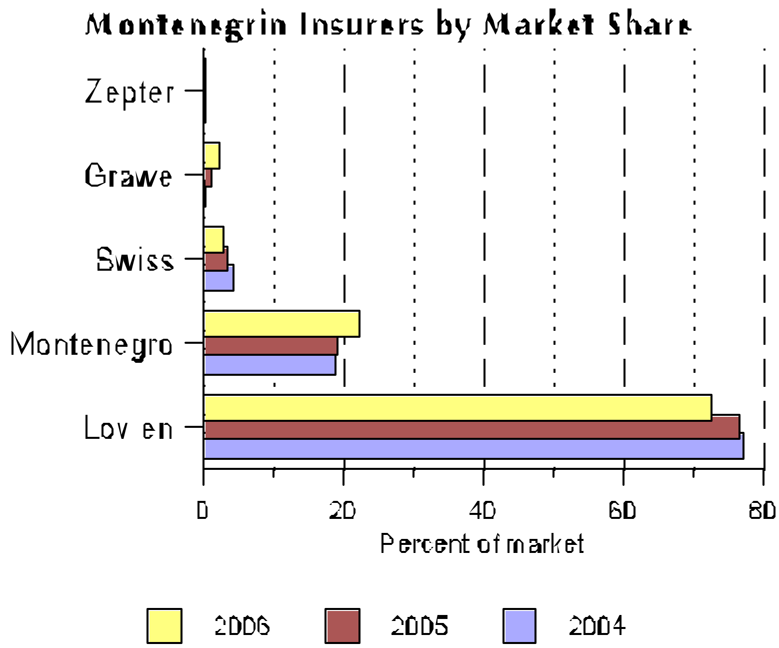
The latest data published by the Statistical Office of the Republic of Montenegro covers the year 2005. Although official macroeconomic data for 2006 has not yet been published, the Ministry of Finance estimated real GDP of 6.5%, bringing GDP to USD 2,409 million. Assuming that Montenegro's 2005 population of 623 thousand was unchanged, GDP per capita in 2006 was USD 3,865. Macroeconomic trends since 2000 are shown on the chart to the right.[9]

Since the supervision agency is still not established, there are no official insurance statistics for 2006. The only source currently available is the Ministry of Finance preliminary report. This report provided the data presented here concerning the trend of insurance premiums and the market structure (Ministry of Finance of the Republic of Montenegro, 2007).

In the last three years, the insurance market in Montenegro has been growing significantly, with total insurance premium in 2006 of USD 49.8 million, representing 18.1% annual growth. Premiums for non-life products, which were 95.2% of the market, grew 15.4%. Life products, although only 4.8% of total premium, grew 22.2%. Premium per capita was USD 79.9, and the share of total insurance premium in GDP was 2.0%.



[9] Official currency in Montenegro is EURO so that exchange rate is taken same as for Kosovo.



As the chart above shows, there were only 5 insurance companies operating in Montenegro. The market is very concentrated, and the biggest company, Lovćen, has 72.3% of the market. Its biggest stock holder is the insurance company Triglav from Slovenia. The top two companies cover 94.9% of the market. There was also one reinsurance company operating on the market (Lovćen-Re).

After implementation of new laws and formation of the insurance supervision agency, it is expected that insurance market will expand, and the range of insurance products offered will become more sophisticated.

Macedonia

A referendum in Macedonia established its independence from Yugoslavia in 1991. The country remained at peace through the 1990s, but Kosovo's problems eventually spilled over into Macedonia. As a result, NATO intervened in 2001 to settle the conflict with the Albanian minority, and political reforms followed. In 2005, the country was officially recognized as a European Union candidate state.

Legal and institutional framework

Responsibility for supervision of insurance sector in Macedonia still rests with the Ministry of Finance. An independent agency for supervision is expected to be established very soon. The new legislation for insurance is mostly adapted to EU Directives.

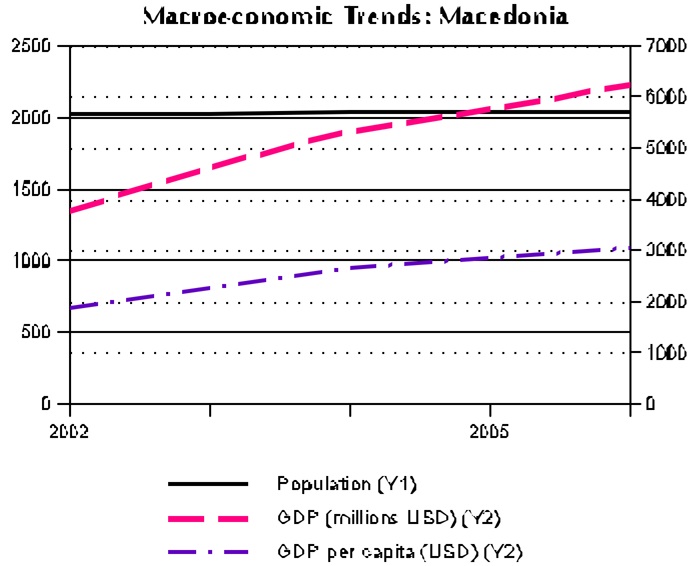
The most important laws for insurance are:

Insurance Law (RM Official Gazette, No. 49/97, 79/99, 13/01, 26/01 and 04/02),

Insurance Supervision Law (RM Official Gazette, No. 27/02, 84/02, 98/02, 33/04 and 79/07),

Law on MTPL Insurance (RM Official Gazette, No. 88/05).

One of the positive aspects of the Macedonia market is that reform of the pension system has already started. The proposed Law on Mandatory Fully Funded Pension Insurance codifies the reforms, and the well established Agency for Supervision of Fully Funded Pension Insurance regulates the system. The National Insurance Bureau is also an important institution in the market.



Market overview

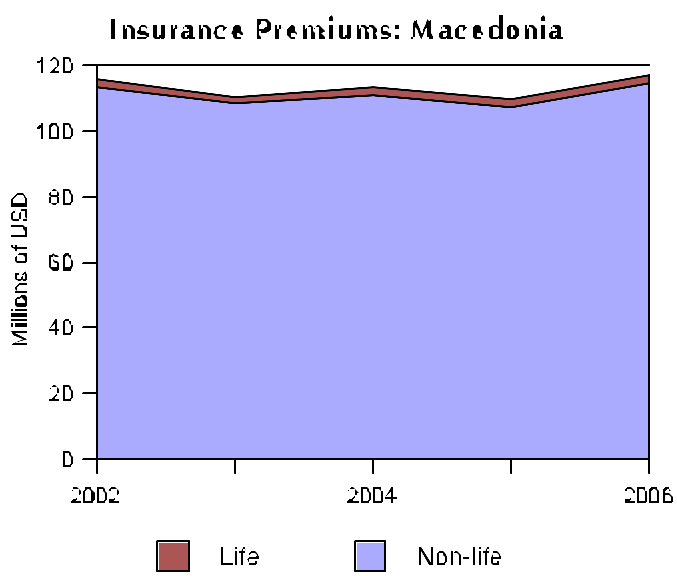
Macedonia's population in 2006 was 2.04 million, and its economy has been growing for the last several years. Its 2006 GDP was USD 6,257 million, 4.0% of growth compared to 2005, and GDP per capita was USD 3,063 (Ministry of Finance, 2007).

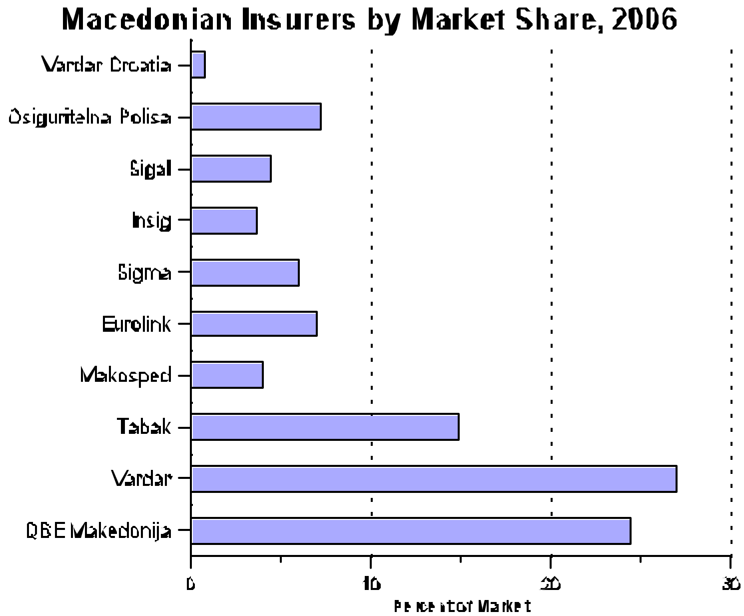
As the table and chart on the next page show, the insurance market in Macedonia has not had significant growth in last few years. Total insurance premium in 2006 was USD 117.2 million, rising 6.7% from 2005. The most improved insurance class is obligatory MTPL insurance, which is 47.5%of the total insurance market. Non-life products constituted 97.9% of the market, and grew 6.7% from 2005. Life products were only 2.1% of total premium, growing 5.9% from 2005. Premium per capita was USD 57.4, and the share of total insurance premium in GDP was 1.9%. The value of claims settled in 2006 was USD 60.2 million, and the claims ratio was 51% (Ministry of Finance, 2007).[10]

[10] Macedonian official currency is DENAR (MKD) and exchange rate is taken from National Bank of Republic of Macedonia on 31.12.2006. (USD 1 = MKD 46.4496).

Total premium written and total claims settled by major insurance classes (mil. USD)

Insurance class	2005			2006		
	Premiums written (1)	Claims settled (2)	Claims ratio (2/1)	Premiums written (1)	Claims settled (2)	Claims ratio (2/1)
Accident	11.7	7.2	0.62	10.9	6.8	0.62
Health	0.2	0.0	0.10	0.2	0.0	0.07
Land motor vehicles	12.9	8.1	0.63	13.0	8.6	0.66
Railway and aircrafts	0.3	0.2	0.72	0.9	0.0	0.00
Vessels	0.0	0.0	0.06	0.0	0.0	2.75
Goods in transit	1.4	0.2	0.14	1.4	0.1	0.07
Fire and natural disasters	7.4	1.7	0.23	7.2	1.3	0.18
Other property insurance	20.9	10.9	0.52	21.8	7.3	0.33
Motor vehicle liability	49.2	31.4	0.64	55.6	32.2	0.58
Aircraft liability	0.6	0.0	0.04	0.0	0.0	0.00
Use of vessels liability	-	-	-	0.0	0.0	0.00
Other liability	0.4	0.0	0.03	0.8	0.0	0.03
Credit	0.1	0.3	1.99	0.4	0.3	0.85
Other non-life	2.4	0.2	0.10	2.5	1.2	0.47
NON-LIFE	107.6	60.3	0.56	114.7	57.9	0.50
LIFE	2.4	1.6	0.66	2.5	2.3	0.94
TOTAL	**109.9**	**61.8**	**0.56**	**117.2**	**60.2**	**0.51**





There were 10 companies operating in the market in 2006. Eight of them operated only non-life, one was a composite, and one company offered only life insurance. As the next chart shows, first three companies represent 66.3% of the market, and the first five companies 80.9% of the market. Two companies dominate the very small life insurance market. QBE Makedonija has 62.4% of the life insurance market. Vardar Croatia, exclusively a life insurer, writes the remaining 37.6%.

Only three insurers (Vardar, Makosped, and Osiguritelna Polisa), with a collective market share of 38.2%, are owned domesticly. One of the insurers (QBE Makedonija) was also registered as a reinsurer in 2006.

With development of the economy and establishment of the supervision agency, it is expected that Macedonia's insurance market will expand in the future, especially in the field of life insurance.

Comparative Analysis and Correlation

The preceding descriptions of the insurance markets in the countries of former Yugoslavia can be used for comparison and analysis, as well as comparison to the other European countries. First, we compare the new solvency standards for each country. The following tables compare the current rules for the minimum capital requirements and the calculation of the required solvency margin (Kozarević, 2006). These countries have different capital adequacy requirements, reflecting the specific conditions of their markets and the financial potential of their companies. The highest requirements are in Serbia, where state-owned companies dominate the market.

New rules for minimum capital requirement

Slovenia	USD 4.0 million (for life insurance) USD 2.6 million (for non-life) USD 4.0 million (additional limitation for particular non-life classes) USD 4.0 million (for reinsurance)
Croatia	USD 4.0 million (for life insurance) USD 2.7 million (only particular classes of non-life) USD 4.0 million (for all classes of non-life) USD 4.0 million (for reinsurance)
B&H	USD 2.0 million (for life insurance) USD 3.4 million (for all classes of non-life) USD 2.0 million (for reinsurance) different limits if company writes only particular non-life classes
Serbia	USD 5.3 million (for life insurance) USD 5.9 million (for all classes of non-life) USD 5.9 million (for reinsurance) different limits if company writes only particular non-life classes
Montenegro	USD 1.1 million (for life insurance) USD 3.0 million (for all classes of non-life) USD 2.6 million (for reinsurance) different limits if company writes only particular non-life classes
Macedonia	USD 4.0 million (for life insurance) USD 2.6 million (for non-life) USD 4.0 million (additional limitation for particular non-life classes) USD 5.9 million (for reinsurance)

Calculation of solvency margin for non-life insurance

Slovenia	The solvency margin is the higher amount of the **premium** or **loss** ratio: ***Premium ratio:*** The sum of insurance premiums achieved in the last business year up to USD 66.0 million is multiplied by 0.18, whilst the amount exceeding USD 66.0 million is multiplied by 0.16. The sum of both these products is multiplied by the last business year's ratio between (not less than 0.5): - the total amount of claims regarding payment of indemnities in that year, excluding claims covered by reinsurance, and - the total amount of claims regarding payment of indemnities in that year, including claims covered by reinsurance. ***Loss ratio:*** The annual sum of claims regarding payment of indemnities, including claims covered by reinsurance, up to USD 46.2 million is multiplied by 0.26, whilst the sum exceeding USD 46.2 million is multiplied by 0.23. The sum of both these products is multiplied by the last business year's ratio between (not less than 0.5): - the total amount of claims regarding payment of indemnities in that year, excluding claims covered by reinsurance, and - the total amount of claims regarding payment of indemnities in that year, including claims covered by reinsurance. In calculating the annual amounts of claims regarding payment of indemnities, the arithmetical average for the last three business years is taken into account.
Croatia	Same as Slovenia but with different limits for calculation premium ratio (instead USD 66.0 million it is USD 67.2 million) and for loss ratio (instead USD 46.2 million it is USD 47.1 million).
B&H	Same as Slovenia but with different limits for calculation premium ratio (instead USD 66.0 million it is USD 13.5 million) and for loss ratio (instead USD 46.2 million it is USD 9.4 million).
Serbia	Same as Slovenia but with different limits for calculation premium ratio (instead USD 66.0 million it is USD 13.2 million) and for loss ratio (instead USD 46.2 million it is USD 9.1 million).
Montenegro	Secondary legislative is not done yet.
Macedonia	Same as Serbia.

Calculation of the solvency margin for life insurance is based on the amount of mathematical provisions and total capital at risk. It is similar for all countries, depending on the types of life insurance products they have, and based on EU Directives. On the other hand, the calculation of the solvency margin for non-life insurance is based on Solvency I standard for some countries (Slovenia and Croatia), and for the other countries it is based on previous EU Directives. In any case, the EU is currently creating Solvency II standards, which all these countries will have to apply in the future.

The tables below compare the macroeconomic trends and insurance market statistics for the former Yugoslav countries with the rest of Europe. These indicators

Comparison of Macroeconomic Trends

	Population (thousands)	GDP USD millions	GDP Growth rate	GDP per capita (USD)
Slovenia	2,010	38,197	5.7%	19,024
Croatia	4,442	42,916	4.8%	9,661
B&H	3,845	12,865	6.2%	3,346
Serbia	7,412	21,220	5.7%	2,863
- Kosovo	2,181	3,212	3.0%	1,472
Montenegro	623	2,409	6.5%	3,865
Macedonia	2,043	6,257	4.0%	3,063
Total former Yugoslavia	**22,556**	**127,076**	**-**	**5,634**
Europe	801,200	16,914,000	2.1%	-

Insurance Premium Data, 2006

	Total premium USD million	Total premium Growth rate	Total premium As % of GDP	Total premium USD per capita	Life insurance Share (%)	Life insurance Growth rate
Slovenia	2,122.2	9.1%	5.7	1,055.8	26.3	16.5%
Croatia	1,466.4	11.3%	3.3	330.2	26.5	14.2%
B&H	242.8	8.0%	2.0	63.1	11.1	25.0%
Serbia	639.1	10.5%	2.0	86.2	10.6	22.7%
- Kosovo	64.2	3.2%	2.0	29.4	-	-
Montenegro	49.8	18.1%	2.0	79.9	4.8	22.2%
Macedonia	117.2	6.7%	1.9	57.4	2.1	5.9%
Total former Yugoslavia	**4,701.7**	**11.1%**	**3.7**	**208.4**	**21.0**	**17.7%**
West Europe	1,428,806.0	7.3%	9.0	2,829.5	64.9	12.3%
Central and East Europe	56,075.0	11.4%	2.7	171.6	23.5	19.2%

Data for Europe are taken from Sigma publication (Swiss-RE, 2007).

Correlation between EU Integration and Insurance Market Development

	Rank on basis of:					
	Progress toward EU	Legal and instiitutional environment	Solvency standards	Ratio of premiums to GDP	Premium per capita	Share of life insurance
Slovenia	1	1	1.5	1	1	2
Croatia	2	2	1.5	2	2	1
Macedonia	3	5	4	6	6	6
Montenegro	5	6	6	4	4	5
Serbia	5	3	3	4	3	4
Bosnia	5	4	4	4	5	3
Spearman's coefficient (ρ)		0.71	0.81	0.66	0.60	0.54

show that the countries of former Yugoslavia are significantly below the West Europe level, but very close to the average of Central and East Europe.

Finally, the table above shows the correlation between the European integration process and the development of the insurance market in these countries. The basic indicators of insurance market development are: legal and institutional environment, solvency standards, ratio of total premium to GDP, total premium per capita, and share of life insurance products. A sound legal and institutional environment for insurance includes specific laws governing insurance operations consistent with EU Directives, a designated government agency responsible for insurance supervision and making detailed regulations for the insurance market, due process and transparent administrative procedures, rigorous accounting standards, consumer protection measures, and valid information on the market. Solvency standard ranking is based on the rules shown in the tables on pages 28 and 29. Insurance penetration, the ratio of premiums to GDP, and insurance density, premiums per capita, are self-evident. In this region, the share of life insurance in the overall insurance market is a good indicator because it suggests a higher level of macroeconomic stability, consumer familiarity with financial transactions, and greater sophistication of the insurance products offered. Countries are ranked considering their developments in integration to EU (as in the table on page 2) and the other five indicators.

The Spearman's coefficient of rank correlation is used as the measurement of correlation between developments in integration to EU and other indicators (Wackerly, Mendenhall, Scheaffer, 2002).

Conclusion

The process of globalization in general and harmonization within the EU in particular, with its growing influence on the world economy, has its implications for insurance markets everywhere in Europe. The influence shows especially in the former communist countries and their transition to market economy. For most of these countries the transition process has the same goal: to become a member of EU. To meet the EU accession requirements, the transition countries have to make many changes in their laws and economy. The procedure for former Yugoslavia or West Balkan countries examined in this paper generally implies several steps.

Analysis of the insurance markets of former Yugoslavia reveals a very strong correlation between the EU integration process and the development of the insurance market. These countries had to make many changes, making a new legal framework and stimulation of competitive markets instead of the previously existing monopoly. The general political and economical environment in each country influenced the duration of the process. The Spearman's coefficients of rank correlation for five important indicators of the insurance market development confirms this hypothesis.

Slovenia, which is already an EU member, had a very favorable political and economical environment. It did not need too much time to reach the goal. On the other hand, Slovenia is very good example for the region of the transition process. Over the course of relatively few years, Slovenia developed its insurance market from an undeveloped monopoly to a competitive market nearly on the level of West European countries. Current trends in its market show that it is still in the process of expanding and has not reached the saturation phase yet.

Croatia, whose insurance market is expanding rapidly, shows even better the perspective of the region. The accomplishments that achieved the status of "candidate country with opened accession negotiations," will also help its insurance market to expand even more than in the previous few years. Probably the most important phase in EU integration process for each country is to achieve candidate status. Actually, to achieve candidate status the applicant countries have to adapt their legal framework for the insurance market completely to EU standards. That implies complete implementation of the EU Directives and allowing foreign insurers to enter the market.

Macedonia is also a candidate country, but progress toward EU membership is slower than in Croatia. Actually, Macedonia' economy is not sufficiently developed, which has implications for its insurance market. In fact, Macedonia's case contradicts our correlation hypothesis. Macedonia reached EU candidate status with a less developed insurance market than other countries in the region which have a lower status in the EU integration process. The explanation for that requires additional analysis, which can be the topic of some future research.

Bosnia and Herzegovina, Montenegro, and Serbia have concluded Stabilization and Association Agreements (SAA) with the EU. They must continue working on the reform to apply for "candidate" status. The insurance markets of these three countries are very similar considering their potential as well as legal framework. They have to work on implementation of the new insurance laws in the next period parallel with other political and economical reforms. Concluding of the

SAA was huge step for them, and they had to solve many political and legal barriers to reach this status. Therefore, an expansion of their insurance market can be expected in the next period.

Generally, we can conclude that insurance markets of all former Yugoslavia countries underwent a huge transition in last two decades. The process of integration to EU is strongly correlated with development of these insurance markets. All changes in the markets are in preparation for participating in the EU insurance market. However, the future of these markets is very promising and, hopefully, will make them as respectable as they were many decades before.

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