



National Bank of Serbia

27/11/2024

Speech by Governor Jorgovanka Tabaković at the opening of “Serbian Insurance Days” conference

Dear friends,

Before we move on to the official part, I will start today's address in my own unique way, with a poem titled “The past and the present,” which, I am sure, just like everything in life, has fittingly aligned with this year's slogan “Let go of yesterday.” In this way, I want to tell you that we are privileged to be together today... It is a poem dedicated to all of us and the circumstances in which we live.

They say don't look back.

They say don't seek anything behind you because there is nothing of value there.

So speak those who believe that the past is only a burden and pain, and that there is a single remedy for all men.

So speak those who believe only they know and think they are called upon to give advice. But only we ourselves know what is valuable, wrong, or right in what remains behind us. No one else can read our reasons and handwriting as well as we can. But this requires strength, honesty with oneself, to preserve a valuable memory, to recognise every mark, the desire to look ahead, to not stumble over the same stone. No one knows why, how, or where to go further better than you.

Through our past days, we will seek pride, others will seek shame. The truth that only we know, or the truth that everyone knows – will always be our Great Wall of China. Others' hatred and fear of us will turn us into warriors who took by force. Without fear of sin, they will spread a bad reputation about us. Lies will be their weapon and they will dig through our hearths and ruins with stolen money and other people's hands.

Some say don't listen to what they say. The wind will scatter their empty words. But how will people know that it is envy and hatred, and that those words are false? In those lies and empty words, others will find excuses and determine our paths and destinies. Therefore, don't let others shape your destiny – neither those who flatter you, nor those who fear you. Everyone is the maker of his own fortune and know that no one can steer the helm of your destiny better than you.

This is a message for all of us.

This was something personal, between you and us, and now we will move on to the official part, which summarises what we have accomplished between the two conferences and what we intend to do.

Dear ladies and gentlemen, esteemed colleagues, respected hosts,

It is truly my pleasure to greet you once again this year, on my behalf and on behalf of the National Bank of Serbia!

This year's slogan says "Let go of yesterday." And yes – we should focus on today and work for the future, while not forgetting what came before and what we have accomplished – both the good and the bad. By working in the interest of our citizens and our economy, the National Bank of Serbia, in cooperation with other important actors in the country, has enabled Serbia to join the ranks of countries that have a special place on the global investment map. And if we were to find a way to summarise all the efforts aimed at further economic development and prosperity of the Republic of Serbia, and the synergistic effect of those efforts, we would not be wrong to say – "Serbia now has an investment grade rating." Therefore, I would like to congratulate everyone on achieving the investment grade, which we have rightly and long deserved!

We have worked conscientiously and devotedly to create an environment in which insurance undertakings can operate predictably, expand their range of services and, most importantly, fulfil their obligations in order to increase their client base, allowing them to look more confidently toward the future. I would like to remind you that we have brought inflation back within the target band, while preserving the country's financial stability. Economic growth is returning to the high rates seen before the pandemic.

The following data illustrate that our economy has shown resilience to the negative effects of the crisis, which has manifested globally in various aspects:

- Inflation has been back within the $3\pm 1.5\%$ target band since May this year;
- The NPL ratio is at its lowest level, at 2.7%;
- Savings in dinars, with record levels exceeding RSD 170 bn, are nearly ten times higher than in 2012;
- Foreign direct investments were at EUR 4.6 bn last year, and data suggest that we will have another record-breaking year – as at 20 November 2024, this figure, and this is an exclusive for you, stands at EUR 4 bn and 231 mn;
- Relative stability of the dinar exchange rate has been maintained;
- Employment and wages are increasing;
- The country's FX reserves are at record high levels – EUR 28.3 bn at the end of September, more than two and a half times higher than in 2012.

But we will not allow yesterday's success to lull us – resting on our laurels would be a path to undoing everything we have achieved.

We are aware that our task is to make the most difficult and complex economic policy decisions under circumstances that are globally uncertain and often of unprecedented nature. We have proven that we recognised in time that it is crucial to be proactive and to build buffers that enable a prompt response to external shocks. We have conducted economic policy responsibly, carried out structural reforms, and increased the diversification of our economy in every sense. I would like to

remind you that high officials of the International Monetary Fund, at this year's Annual Meetings, assessed that Serbia is one of the most successful examples of growth and progress. And so, I once again conclude that there are all reasons for realistic optimism. We will let go of yesterday, but today, as yesterday, we are working for a better tomorrow.

Our strategic commitment is to continue to encourage domestic growth factors and the resilience of our economy, which are prerequisites for further progress and an improved credit rating for Serbia. We will harness our potentials as we have done so far, and we will work diligently on the further growth and development of our society in all areas.

Let go of yesterday...

In pursuit of a better tomorrow, we need your cooperation as well.

When we talk about insurance, we are often consumed by concerns about past events, unfortunate things that have happened, mistakes that may have already been made, or other failures. Insurance, first and foremost, has the role of protecting our future, not burdening us with the past. "Let go of yesterday" means that we should focus on what we can improve and provide security for insurance service users in the future.

Through the joint efforts of the National Bank of Serbia and (re)insurance undertakings and all insurance distributors, we should work even harder to create a stable and efficient sector, with solvent undertakings and responsible management for the protection of insurance service users.

I will first turn to the data on insurance transactions because numbers say a lot and indicate that the insurance sector in Serbia has continued the trend of steady growth this year.

The insurance market has been stable over the past ten years (2014–2023) – the numbers speak for themselves

The data presented here, which refer to the past ten years, show that all key performance indicators of the insurance sector recorded a positive trend, in the face of numerous challenges.

Total assets, technical reserves, capital and premiums in both non-life and life insurance, have more than doubled, resulting in the generally positive trend of insurance premiums per capita (rising from EUR 83 to EUR 200) and the share of insurance premiums in GDP rising from 1.6% to 1.8%.^[1]

The total insurance premium increased from RSD 69.4 bn in 2014 to RSD 155.3 bn in 2023, and the life insurance premium climbed from RSD 16.0 bn to RSD 30.5 bn. Also, as you can see here, the amount of settled claims more than doubled in the observed period, going up from RSD 29.8 bn to RSD 82.1 bn.

Insurance sector development indicators

Amounts in RSD bn

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total premium	69.4	80.9	89.1	93.1	99.9	107.5	109.9	119.4	133.9	155.3
Life insurance premium	16.0	19.4	23.1	22.8	23.8	25.1	26.2	27.1	28.7	30.5
Non-life insurance premium	53.4	61.6	66.0	70.3	76.1	82.4	83.8	92.3	105.2	124.7
Premium per capita ¹⁾	€ 83	€ 94	€ 103	€ 109	€ 121	€ 131	€ 136	€ 149	€ 171	€ 200
Premium to GDP ratio ²⁾	1.6%	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	1.8%	1.8%	1.8%
Settled damage claims ³⁾	29.8	32.9	35.7	39.3	43.5	55.5	53.0	56.8	68.9	82.1
Total assets	167.9	191.8	215.6	233.0	279.0	299.7	314.2	334.0	336.6	375.5
Capital	35.2	44.8	50.8	54.0	61.5	72.1	76.8	81.1	72.0	79.5
Technical provisions	117.0	131.0	148.4	160.6	197.3	202.5	208.3	219.2	229.7	256.0
Number of insurance undertaking	25	24	23	21	20	20	20	20	20	20
Number of employees	11,287	10,859	10,954	10,813	10,566	11,146	11,358	11,244	11,419	11,445

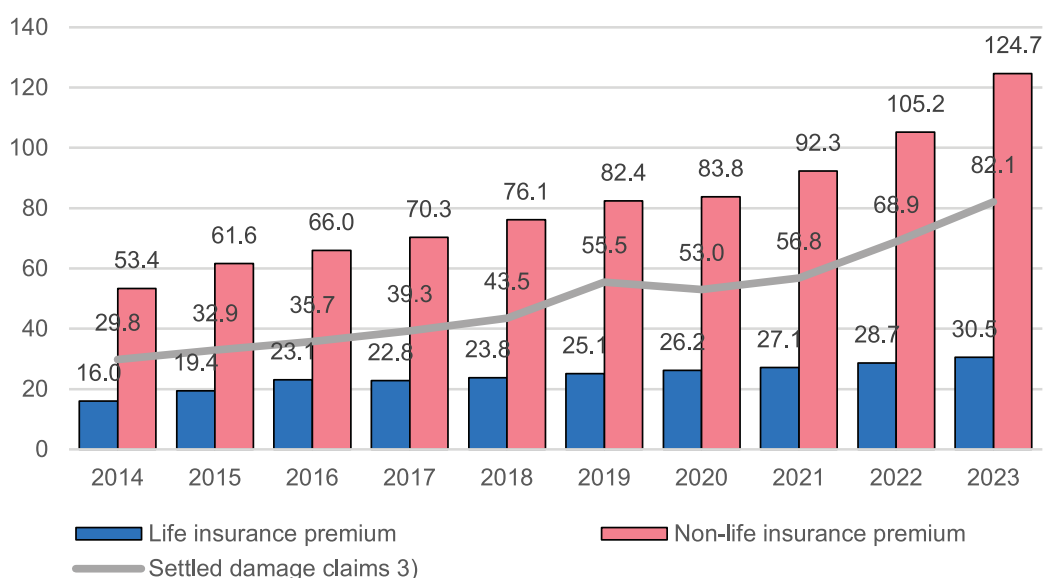
1) Premium data calculated by applying the annual middle exchange rate of the NBS for the respective year, while the number of the population is the estimated number of the population (annual average).

2) Statistical Office of the Republic of Serbia has conducted a revision of GDP data (since 1995) in accordance with Eurostat's benchmark revision programme (announcement dated 1 October 2024). The previous revision was conducted in 2018 and 2019.

3) Settled damage claims including the expenses related to the settling and payout of damage claims of insurance undertakings.

Technical reserves, which ensure the protection of interests of the insured and third injured parties, i.e. payment of claims, again recorded double-digit y-o-y growth (11.4% in 2023), with the major part of these reserves (50.1%) stemming from life insurance contracts.

Total premium and settled damage claims in the insurance market
in RSD bn

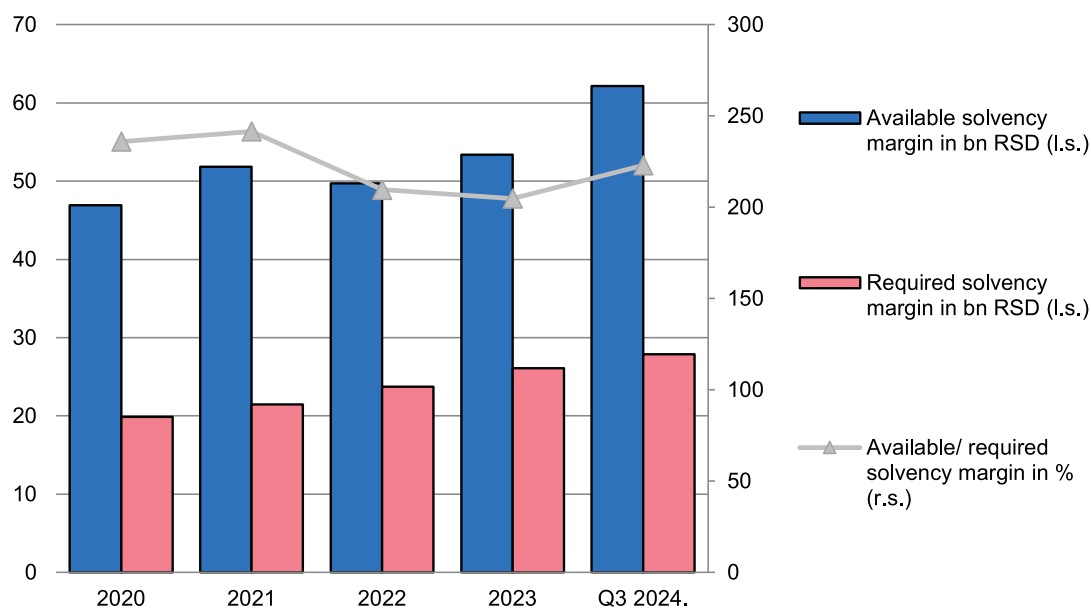


Source: National Bank of Serbia.

The stability of the insurance market has been maintained in the last four years, even in conditions of multiple, increased risks (1/2)

Over the past four years, in conditions of multiple, increased risks, the insurance sector has preserved its solvency and profitability, continuously providing a wide range and high quality of services to its users. The numerous measures of the National Bank of Serbia in the field of micro and macroprudential policy certainly contributed to this, mitigating the negative consequences of the multidimensional crisis we have been facing over the last five years.

Capital adequacy of insurance sector

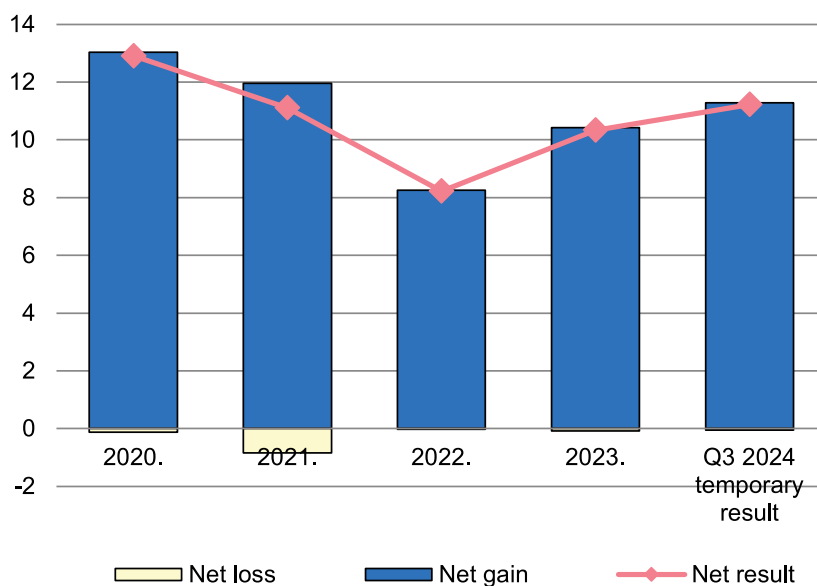


Source: National Bank of Serbia.

In the first three quarters of this year, the capital adequacy ratio (223.0%) was not only significantly above the legally prescribed level, but also higher than at the end of the previous year (204.8%) and end of the same period last year (211.4%).

As market conditions stabilised, interest rates normalised and inflation declined, a positive interim result was posted in the amount of RSD 11.2 bn, which is as much as 70.6% or RSD 4.6 bn more than in the same period last year. Hence, the insurance sector is getting closer to the result achieved in 2021 and even in 2020, as the year with the best net result thus far. This can be seen on the following chart:

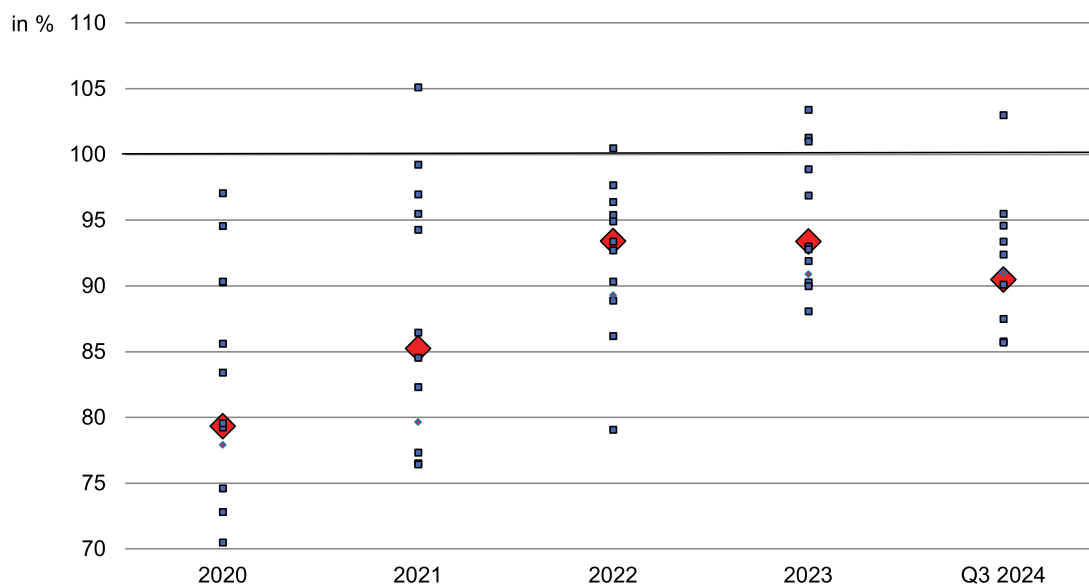
Net result of the insurance sector after taxation in bn RSD



Source: National Bank of Serbia.

The net combined ratio of non-life insurance has displayed positive trends since Q1 2024, i.e. it has declined, reaching 90.5% at end-Q3.

Net combined ratio of non-life insurance



Source: National Bank of Serbia.

The stability of the insurance market has been maintained in the last four years, even in conditions of multiple, increased risks (2/2)

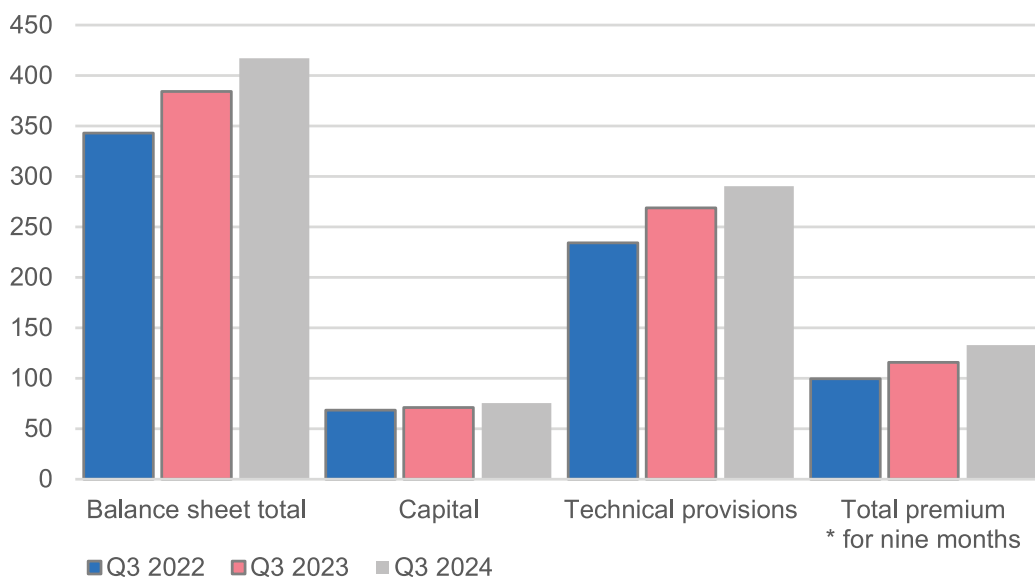
Total insurance premium in the first three quarters of this year stands at RSD 132.6 bn, which is an increase of 14.7% y-o-y. This growth rate is higher than the average rate recorded in the same period over the past ten years (9.0%).^[2] The non-life insurance premium rose faster than that of

life insurance, which is also a consequence of the crises caused by the pandemic and geopolitical tensions between 2020 and 2023. Also, we should underline that undertakings invested the full amount of technical reserves in the prescribed forms of assets, both in life and non-life insurance, whereby, among other things, they ensured adequate types of assets for the regular settlement of their obligations arising from insurance contracts.

The categories such as the balance sheet total, capital and technical reserves of the insurance sector at the end of the first three quarters of this year recorded an increase compared to the end of the corresponding period last year, namely:

- Balance sheet total of the insurance sector rose by 8.6%, to RSD 417.1 bn;
- Capital increased slightly by 6.4%, to RSD 75.2 bn;
- Technical reserves rose by 8.0%, to RSD 290.4 bn.

Insurance sector performance indicators
in RSD bn



Current risks / potential for insurance

For a long time now, we have been witnessing global challenges such as: geopolitical tensions, including the Ukraine and Middle East conflicts, climate change and natural disasters, inflation and interest rate movements.

Threats: In life insurance, rising interest rates, inflation and pandemic risks can expose insurers to liquidity risks as premium payments ^[3] may cease and insurance contract fees ^[4] go up. In this context, we should be happy about the gradual decrease in interest rates and inflation's return within the target band, which makes it reasonable to expect that the impact of these factors will diminish in the future.

In non-life insurance, inflation and catastrophe claims increase the amount of costs and claims (the need to build up provisions for claims), affecting profitability. The most recent example is the flood tragedy in Valencia, which took hundreds of lives and caused huge material damage.

Opportunities: On the other hand, the current conditions could also represent potential for insurance sector growth, by absorbing the demand for insurance. It is therefore necessary to carry on continuous work on providing more accessible and affordable insurance, both in terms of creating insurance products that are adapted to the real needs of the insureds (e.g. new coverage), and in terms of improving the sales network, but taking into account the risks and the protection of service users.

In any case, it should be underlined that today, and still more so tomorrow, the pace at which the world is changing, and hence the habits and needs of businesses and people, require a swift, but also real response of participants in the insurance market.

As expected, the highest absolute growth in insurance premium was recorded for:

- motor vehicle third party liability insurance,
- voluntary health insurance,
- property insurance and
- full coverage motor vehicle insurance.

Citizens' increased awareness of the need for insurance

It can be said that citizens increasingly recognise the need for insurance. This was first shown by the COVID-19 pandemic, followed by the more pronounced climate changes and catastrophic damages – floods, storms, hail – as well as the risks that bring huge uncertainty.

When we compare data related, for instance, to voluntary health insurance in 2023 and 2022, there is a noticeable increase in voluntary health insurance, with the number of contracts concluded rising by 17.7%, and the number of insured individuals covered by the insurance – by 26.8%. Property insurance against fire and other property insurances also saw a certain increase (7%), while general liability insurance (such as contractor liability, design liability, medical liability, etc.) stands out with a growth of 17.85% compared to the previous year.

However, we must maintain caution, as assuming risk in insurance requires allocating significant funds for coverage. We must not forget that our primary task is to ensure that insurance undertakings are at all times financially capable and ready to fulfil their obligations to policyholders, insurance beneficiaries, and injured third parties, as well as that those engaged in insurance sales are adequately prepared to meet the insurance needs of citizens and businesses.

Banks as part of the insurance market

Banks and insurance undertakings should not be viewed as competitors, but rather as entities that complement each other in the financial market, creating new value. In line with this, various forms of established cooperation, as well as its changes, have been the focus of the National Bank of

Serbia. Special supervisory activities were carried out in relation to the insurance agency services provided by banks, which are increasingly emerging as a significant sales channel for insurance in the market. The activities undertaken in this area have enhanced the protection of policyholders.

Banks, as persons carrying out insurance agency, are becoming an increasingly popular insurance sale channel, especially for life insurance. In an effort to become competitive, banks offer their clients a range of products, which include insurance services. Gaining in popularity are product packages, such as payment account packages that encompass various types of insurance services as a benefit for the client. On one hand, this is positive because financial service consumers can easily gain additional protection for both themselves and their property. However, on the other hand, the range of services offered to users should be carefully selected and in line with their actual needs, ensuring that they get appropriate value for their money.

It is important to note that insurance services as a benefit are often included in the offer of card payment systems (VisaCard or MasterCard), in relation to which the National Bank of Serbia has specifically emphasised the obligation that a bank in the territory of the Republic of Serbia cannot offer its clients – holders of these cards – access to the services of foreign insurance undertakings. Instead, it is necessary to choose a domestic insurance undertaking to provide insurance services to the bank's clients – users of the mentioned cards.

There is also a noticeable increase in the number of banks that include so-called assistance services in their offerings, as part of the products or service packages they provide to both legal and natural persons. When creating products that include such benefits or when offering these services as a form of independent benefit for the client, the National Bank of Serbia has pointed out to banks that in providing these benefits they need to involve an insurance undertaking licensed by the National Bank of Serbia to carry on insurance business.

A modern approach to insurance contracting

With the digitalisation of all services, we have come to the modern method of contracting insurance and assessing damages. Predominantly, non-life insurance products are sold via the internet and other telecommunication means: property and household insurance, as well as motor vehicle insurance, and travel assistance. There is also a noticeable increase in the sale of voluntary health insurance through these channels. All of this indicates that insurance services need to be easily accessible, and that taking care of the needs of users and protecting the rights of our citizens is crucial for the further development of all financial services, including the insurance market. One way to achieve this goal is through the development of higher-quality insurance products, providing appropriate value for the price paid, and certainly improving the quality of service, to which digitalisation can contribute significantly.

This will mean the continuation of ongoing efforts to ensure more accessible and affordable insurance, both in terms of creating insurance products tailored to the needs of policyholders (e.g. new coverages) and improving the sales network (e.g. digital sales channels), while also considering risks and protecting the users of your services.

Digitalisation of insurance services

Digitalisation in the insurance sector is transforming the way market participants operate, improving efficiency, reducing costs, and adapting to the expectations of modern clients. Process automation and the use of artificial intelligence in communication with insurance users reduce human errors but also open the door to risks such as the protection of sensitive customer data, cyberattacks, or even impersonalised approach when offering insurance products to clients. Digitalisation also presents new challenges for supervisors, namely the need for new skills and digital tools suitable for analysing and monitoring the new risks brought by digitalisation.

Going forward, the National Bank of Serbia, as the supervisory authority, expects market participants in the insurance sector to be cooperative and understanding so as to ensure a collective response to the upcoming challenges. We are facing a time of uncertainty in which we must act together in all important areas, as only through this concerted effort can we address the unpredictable outlooks and growing risks on a global scale in all aspects of life. This year's slogan "Let go of yesterday..." is a refreshing approach to insurance, focusing on a better tomorrow and strengthening user trust in insurance services.

Together we must make the future more predictable and better. Thank you for your attention, and I wish us all much success in our work.

[1] The Serbian Statistical Office revised the GDP data (from 1995 on) in line with the Eurostat's benchmark revision programme (press release of 1 October 2024). The revision was carried out previously in 2018 and 2019.

[2] From Q3 2014 to Q3 2023.

[3] The payment termination ratio, as the sum of the termination, redemption and capitalisation ratios, increased in 2021 and 2022 and measured 13.8% and 15.2%, respectively.

[4] Fees may go up due to higher mortality (e.g. a new pandemic), rising inflation (for contracts with an index provision), and in the case of mass redemptions.

Governor's Office