INSTITUTIONAL ASSUMPTIONS ABOUT SOCIO-ECONOMIC DYNAMICS IN EAST AND CENTRAL EUROPE
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Insurance companies as driving forces of economic dynamics

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Rezime:

Osiguravajuća društva, investicioni i penzioni fondovi, kao institucionalni investitori, ali i drugi finansijski intermedijari imaju velikog značaja u podsticanju privrednih aktivnosti, odnosno podsticanju ekonomskog dinamizma. Od svih finansijskih intermedijara izdvojili smo osiguravajuća društva imajući u vidu njihovu dominantnu ulogu u zemljama EU, ali i Srbiji. Za cilj istraživanja u radu postavili smo istraživanje značaja osiguravajućih društava kao ključnih faktora podsicanja ekonomskog dinamizma. U tom kontekstu, predmet istraživanja čine fenomenologija ekonomskog dinamizma i uloga finansijskih intermedijara, pre svega preko akumulacije a potom i efikasne alokacije finansijske štednje. Zaključak naših istraživanja je da osiguravajuća društva imaju velik značaj u podsticanju ekonomskog dinamizma u razvijenim ekonomijama kao i da njihov potencijal nije dovoljno iskorišćen u Srbiji.

Abstract:

Insurance companies, investment funds, pension funds as institutional investors, as well as other financial intermediaries have a great importance in stimulating economic activity and fostering economic dynamism. Among all the financial intermediaries, we highlighted insurance, given their dominant role in the EU and Serbia. As the aim of this paper we set up the research of significance of insurance companies as a key factor of economic dynamism's promotion. In this context, the research object of the paper is the phenomenology of economic dynamism and the role of financial intermediaries, primarily through the accumulation and then the efficient allocation of financial savings. The conclusion of our study is that insurance companies have huge impact in fostering economic dynamism in developed economies and that their potential is not used enough in Serbia.

Key words: *economic dynamics, insurance companies*

1. Introduction

The key role of security has always been in an organized and institutionalized way that to minimize risks that individuals are exposed to by joining the same risks, which means to provide individuals and businesses protection against risks that threaten their property and lives. The primary function of insurance in the modern economy is the function of protection of assets. In the field of protection against the risk one of the crucial role of insurance is to preserve the financial health of small and medium-sized enterprises. Providing sustainable survival and development of small and medium enterprises is an important element of the contribution not only to economic development but also political stability of any country. However, reserve management in the context of limitation of risk exposure on the one hand and the search for investment returns in the financial markets on the other hand, is a basic prerequisite for optimizing the performance of insurance companies and a key step in risk management. Our hypothesis is that insurance companies carrying out its primary function contribute to economic dynamism and promote overall economic development. The aim of our research is to analyze the importance of the role of insurance companies in stimulating economic dynamism. The subject of the research is the phenomenology of economic dynamism and the role of financial intermediaries, primarily through the accumulation and then the efficient allocation of financial savings. Actuality of the topic from our perspective stems from the fact that in developing economies are not yet sufficiently exploited all potential development opportunities that insurance as an area of special public interest has. For these countries insurance is particularly important in the area of improving the effects of their economies, but also long-term economic performances deriving by providing risk protection.

Insurance companies increase supply of long-term accumulated funds for financing economic development and enable more efficient allocation of economic resources that impacts positively the functioning of the national economies. The need to accumulate financial savings in order to support economic growth through the mechanism of insurance, regarding of limited capital, negative balance of payment (BOP) and huge external debt, for Serbia and all other countries in the region is becoming increasingly important. In the previous period, even during the eighties of the XX century, Serbia financed its economic growth [1] on the basis of external debts through borrowing from private or international financial institutions. Although during the first decade of the new millennium, economic growth was financed through significant incomes of foreign direct investment, according to representatives of the World Bank and leading local politicians such trends are not going to be continued in the future. The focus must be directed towards improving the competitiveness of the domestic economy, export promotion, public sector reform and support the most propulsive sectors and companies. Regarding that we believe that insurance companies as institutional

1 Radmilović, S.: Sumorna faktografija ekonomske stvarnosti Srbije, Računovodstvo, Beograd, br. 1-2, 2010, p. 5-24

investors can give potentially the greatest importance. In fact, numerous empirical and theoretical studies [2] emphasizing the importance of insurance in the economy and society, indicate that insurance improves competitiveness and contributes to the development of trade, entrepreneurial activities and most importantly improves the efficiency of capital allocation

2. The phenomenology of economic dynamics and the role of insurers

By the nineteen-twenties economic issues were observed with the aid of the static technique. From the twenties to the present, most economists, including R. Frisch, CF Roos, J. Tinbergen, M. Kalecki and P. Samuelson, have applied dynamic technique to the various fields of economic theory.

A system is dynamical if its behavior over time is determined by functional equations in which variables at different points in time are involved in an essential way. [3] Economic dynamics is related to economic growth, or business cycles, or dynamic change. Economic dynamics can be consequently defined as an economy exposed to changes in time, wherby dynamic change is not limited to the general economy but also includes markets and companies. These changes may include changes in the population, size of capital, improving the modes of production, changes in industrial institutions and habits of people, fashion and generally human needs. Although the economic dynamism and the impact of insurance companies could be considered from different aspects in this paper we focus our attention primarily to changes in the economic growth and the volume of capital available to finance economic development and improvement of prosperity as aspects of economic dynamism.

Insurance provides individuals to own their own property, has a positive impact on the increased volume of purchases, thus indirectly encourages economic activity having in mind that consumption is the main driver of economic growth and development, but profit and employment too, both within the insurance sector and beyond. In Europe, for example, the insurance sector in 2013 has been represented by 5357 companies that directly employed 940,000 people. [4] Insurance companies have achieved €1,117 billion gross written premium. In the UK the insurance sector in 2014, for example, employed about 314,400 people [5], while in the US in 2013, 6086 companies employed 2.4 million

2 Na primer, Davis, E.P. and Steil, B.: Institutional Investors, The MIT Press Cambridge, MA, 2001, Rejda, G. E.: Principles of Risk Management and Insurance, Pearson Education, Inc., Upper Saddle River, NJ, 2005; Skipper, H. D. and Kwon, W. J.: Risk Management and Insurance: Perspectives in a Global Economy, Oxford: Blackwell Publishing, Ltd, 2007; Dorfman, M. S.: Introduction to Risk Management and Insurance, Pearson Education, Inc., Upper Saddle River, NJ, 2008

3 Gandolfo, G.: Economic Dynamics: Study edition, Springer-Verlag, Berlin, 1997, p. 1

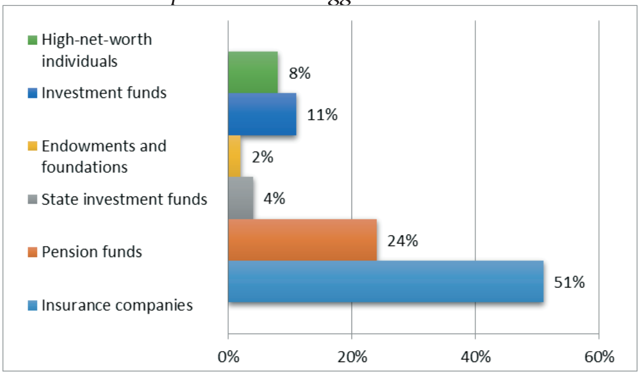
4 European Insurance in Figures, Statistics No 50, Insurance Europe, Brussels, December 2014.

5 UK Insurance Key Facts, Association of British Insurers, London, 2014.

people. [6] In the UK insurance companies have directly contributed to the growth of the gross domestic product (GDP) of £25 billion and paid taxes in the amount of £11.8 billion. In the US, insurance sector and supportong activities accounted for 2.5% of GDP. Insurance companies indirectly employ about one million agents and insurance brokers and financial intermediaries. Also, the insurance sector indirectly affects the greater employment in all those companies which cooperate to insurance companies such as IT sector companies [7].

Addition important role of insurance companies is investing in financial markets. Insurance companies in Europe have about 25% of all government bonds issued by member states of the European Union, about 21% of all European corporate bonds as well as a significant part of all listed shares and assets such as infrastructure. [8] Also, insurance companies in Europe, according to data from 2011, owned about 11% of bank debt in the euro zone, 24% of the public debt of the EU countries, 18% of total shares and 14 mortgage bonds. Insurance companies invested in infrastructure projects around €11.7 billion in direct loans to small and medium enterprises in the amount of about €14.1 billion and private shares that are not quoted on the stock exchange) in the amount of about €18.9 billion. [9] Insurance companies from Europe manage around 12% of total global financial assets. Figure 1 shows the participation of insurers and other institutional investors in Europe in 2011.

Figure 1: Insurance companies as the biggest institutional investors in Europe



Source: Funding the future: Insurers' role as institutional investors, Insurance Europe, Brussels, June 2013, p. 12

6 A Firm Foundation: How Insurance Supports the Economy, Insurance Information Institute, New York, 2015.

7 European Insurance in Figures, Statistics No 50, Insurance Europe, Brussels, December 2014.

8 The Benefits of Insurance, Insurance Europe, Brussels, 2015.

9 Procene ulaganja u infrastrukturne projekte, direktne zajmove malim i srednjim preduzećima i privatne akcije izvršene su na osnovu ispitivanja 13 osiguravajućih društava.

Figure 1 explicitly shows the dominant share of insurance companies, among other institutional investors [10], in the management of total investments. The participation of insurance companies amounted to 51% from total investments of € 15.1 trillion at December 31, 2011.

Insurance reduces the investment risk taht business entities are faced to. Also, getting bank loans is far more expensive and in some cases even impossible without the existence of adequate insurance coverage. Insurance decrease credit risk of borrowers by guaranting value of collateral or provides greater assurance that the loan will be repaid through insurance of the credit relationship between the insured and the bank. If the borrower is secured banks approve loans easier which results in an increase of purchasing power, the development of trade and commerce as well as development of banking. Existence of the insurance coverage provides reasonable assurance that the borrowed funds will be returned, which indirectly reduces the costs of obtaining the necessary capital. This role of insurance is especially important in the emerging markets where the lack of capital is one of the key destimulating factors for investment of business entities and individuals - entrepreneurs. Insurance in this segment has a positive impact and can encourage companies to think long term and to increase their tolerance to risk, which indirectly increases new investments and contributes to greater rate of employment. A large part of international trade is ensured through various forms of insurance. If the insurance system was inadequately set could even have negative impact on trade and especially world trade flows, where security is especially important

Production and sales of many products in modern business conditions is possible if these products are insured, both in traffic and distribution as well as more in terms of the responsibility of manufacturers regarding produced products. Insurance contributes to the development of trade by improving the creditability of the borrower. Considering the effects of insurance it can be conditionally considered as an additional factor of production. Insurance have similar effects regarding investment in infrastructure. Without activities of insurance sector numerous infrastructure projects such as power plants, roads, bridges, hospitals and schools would never been realised. By providing protection against the financial consequences of the risk realization insurance provides financial stability of insureds and their families and the continuity of business operations. This indirectly improves the overall economic and social prosperity through the regular payment of taxes and ther instruments of government revenues. Also, when insurance companies pay out sum insured in the cases of life and non-life insurance in terms of adverse events realisation, the pressure on using state budget or social security funds is reduced. In developed countries, a large part of the damages caused by realisation of adverse events are covered by the accumulation of insurance companies, unlike the countries with less developed insurance sector. For example, the consequences of the earthquake of 2010 in Kraljevo (Serbia) have been almost entirely covered by state funds, compared to damage caused by Hurricane Katrina in 2005 in the USA, when

10 According to the classification of the OECD, banks are not considered as institutional investors

insurance companies covered about 33% of the total economic damage ($ 45 billion were damages covered by the insurance sector, while the overall economic damage were $ 135 billion [11]). Numerous studies indicate that the life insurance are especially significant because their development directly reduce the cost of social security. Also, by encouraging preventive measures and reduction of damages, insurance contributes to the reduction of total damages in the economy and society which further improves social welfare.

Special importance in improving the socio-econimic welfare has a function of promotion entrepreneurship, trade and credit, which boosts economic development, but the level of total employment, too. Improving the total volume of financial resources available in the economy and their effective allocation also affects positively the socio-economic welfare. Insurance companies contributes positively to socio-economic welfare by realising their primary and secondary functions. Insurance companies have a large, positive or negative, impact on the balance of payments of the country. If insurers transfer significant part of the risks to international reinsurers, their impact on the balance of payments will be negative and otherwise, when they accept risks from abroad in their insurance coverage impact on the BOP will be positive. Also, a positive impact on the balance of payments insurance companies can achieve by establishing business activities abroad through branch offices, whereby operating profits are transferred to the parent state. Insurance companies contribute directly and indirectly to the increasing level of employment. Finally, insurance companies contribute to the improvement of socio-economic welfare by payment of taxes. For example, in the UK insurance sector is the fourth largest tax payer, employs around 275,000 people and is one of the largest exporters considering that about 20% of total premium is ralised abroad. [12].

3. Financial intermediaries' role in the accumulation of financial savings

Collecting funds in the form of reserves of insurance companies, or financial function [13] as it is known in the literature is the most important secondary function of insurance. This function comes from the fact that insurance premiums are paid in advance and that the payment of claims happens successively during the year. Time gap in the collection of premiums and payment of claims results in funds that can be directly or indirectly invested through the financial market as a support to economic development. This is the way of transforming small individual amounts collected from a great number of insureds to a huge amount of capital available for investing. 14 [14]

11 Zanetti, A. and Schwarz, S.: Natural catastrophes and man-made disasters 2005: high earthquake casualties, new dimension in windstorm losses, Swiss Re, Zurich, 2006, p. 3

12 UK Insurance – Key Facts, Association of British Insurers, London, 2010

13 Kočović, J., Šulejić, P.: Osiguranje, Ekonomski fakultet, Beograd, 2002, p. 36

14 Marović, B., Avdalović, V.: Osiguranje i upravljanje rizikom, Subotica, Birografika a.d., 2004, p. 23

The growing institutionalization of financial savings, with the increasing importance of the role of pension and investment funds and insurance companies, represents the most important change in the financial markets in recent times. The insurance companies as institutional investors have considerable influence in the process of mobilizing financial savings, especially since the mid-twentieth century.

Insurance and reinsurance companies are an important element of each national financial system's structure as well as global economy today. [15] The degree of institutionalization of financial savings and the role of insurance companies varies from country to country. It is particularly expressed in developed countries such as USA, UK, Germany and Japan, where the insurance sector mobilizes huge resources and plays an important role in financial markets. The share of the insurance sector in the overall structure of institutional investors varies from country to country. For example, in Germany the share of insurance companies reaches 51% in France, 52% in Japan 64%. In terms of the importance of insurance companies as institutional investors in transition countries, the Czech Republic can be pointed out where the share of insurance companies amount to 55% and Poland where share of insurance companies is about 54%. [16]

From a financial point insurance enables the creation of financial funds in the form of insurance reserves. Financial funds accumulated in the reserves of insurance companies become specific capital depending on the type of insurance. [17] The most significant funds that insurance companies can invest in the financial markets represent funds collected through the selling life insurance policies which is a form of long-term and purposeful saving. Because of long-term availability of the funds collected through the life insurance premiums, insurance companies have an advantage comparing to other investors that mostly collect short-term funds. The reserves of insurance companies are also an important source of capital investments and thus the interest of every society, particularly in developing countries, is that insurance companies collect the more funds through the insurance reserves.

Investments of insurance companies in the period 2006-2013 show an increasing trend. Namely, in the reporting period investments of insurance companies in Europe fell only in 2008, compared with 2007. Since 2008, European insurers recorded a constant growth in the overall volume of investments, which in 2013 reached a volume of around €8526 billion. As seen in Table 1 the largest investment in Europe realize insurance companies of Great Britain, France and Germany. Investments of insurance companies in other countries are below the € 1000 billion.

15 Njegomir, V.: „Osiguravajuća društva kao institucionalni investitori", Računovodstvo, Vol. 54, Br. 5-6, Savez računovođa i revizora Srbije, Beograd, 2010, p. 50-68.

16 Institutional Investors - Statistical Yearbook, 1992-2001, OECD Publications, Paris, 2003

17 Njegomir, V.: „Osiguranje - zamajac preduzetničke energije", Svijet Osiguranja, Vol. 10, Br. 4, Tectus, Zagreb, 2007, p. 61-63

Table 1: Investments of insurance companies in Europe in the period 2006-2013 (€ millions)

	2006	2007	2008	2009	2010	2011	2012	2013
Austria	69.413	71.941	76.788	77.925	81.900	82.355	83.314	84.614
Belgium	193.085	202.781	198.288	218.425	230.529	234.681	264.492	267.987
Bulgaria	560	773	881	995	1.082	1.087	1.130	1.190
Switzerland	272.551	273.387	275.519	268.580	327.165	345.480	359.607	365.998
Cyprus	2.081	2.195	1.968	2.052	2.080	1.860	1.882	1.580
Czech Republic	9.950	10.630	11.253	12.011	13.082	12.865	13.204	11.730
Germany	1.199.745	1.249.461	1.265.890	1.300.528	1.354.115	1.403.538	1.554.766	1.551.488
Denmark	192.435	196.237	206.013	227.742	256.334	240.905	252.524	247.136
Estonia	562	798	673	1.041	1.246	1.236	1.320	1.305
Spain	175.477	181.780	191.531	218.252	214.395	219.118	237.214	252.940
Finland	107.831	111.812	98.162	113.750	123.681	117.984	123.860	131.734
France	1.402.201	1.491.236	1.406.552	1.585.896	1.685.626	1.666.258	1.856.272	1.931.088
Greece	10.460	11.843	11.330	12.539	11.276	10.433	11.024	11.399
Croatia	2.244	2.642	2.630	2.905	3.245	3.394	3.590	3.649
Hungary	6.392	6.961	7.504	7.789	8.020	6.830	7.349	7.092
Ireland	90.990	92.516	73.034	78.757	81.572	79.599	84.904	91.000
Iceland	1.413	1.281	588	470	611	667	657	797
Italy	477.545	466.398	434.676	489.479	517.014	511.384	526.975	562.960
Linheštajn	10.196	13.483	13.712	19.805	23.623	23.919	24.136	23.990
Luxembourg	54.112	60.546	59.293	76.623	96.509	101.363	116.776	127.606
Latvia	224	305	387	408	374	353	452	435
Malta	1.677	2.257	2.294	2.781	3.286	3.561	3.928	4.297
Netherlands	334.532	322.546	311.505	334.994	358.676	380.508	412.731	400.511
Norway	99.693	114.499	89.265	111.163	133.378	141.424	162.231	155.413
Poland	26.135	32.562	30.327	30.909	33.003	29.207	35.950	35.826
Portugal	45.452	49.446	51.036	57.434	58.496	51.473	52.751	53.020
Romania	n.a.	n.a.	n.a.	1.426	1.431	n.a.	n.a.	n.a.
Sweden	286.106	321.328	226.140	271.403	334.022	331.970	375.501	399.568
Slovenia	4.458	5.847	4.698	5.038	5.031	4.212	4.431	4.444
Slovakia	2.818	3.285	3.701	n.a.	n.a.	n.a.	n.a.	n.a.
Turkey	6.616	8.522	7.506	7.715	8.401	7.333	8.634	7.770
United Kingdom	1.886.672	1.872.987	1.247.194	1.465.625	1.578.486	1.620.519	1.766.240	1.788.420
	6.973.626	**7.182.287**	**6.310.337**	**7.004.461**	**7.547.690**	**7.635.517**	**8.347.846**	**8.526.987**

Source: Insurance Europe

4. The role of financial intermediaries in efficient allocation of the accumulated financial savings

Contribution of insurers as institutional investors in terms of improving the efficiency of investment is particularly significant. By mobilization of financial savings insurance and reinsurance companies improve the efficiency of the financial system in three ways: 1. Contribute to the reduction of transaction costs by linking lenders and borrowers of capital, 2. Create liquidity – after the realisation of adverse events insureds can immediately use financial sources based on payment of insurance claims, while the the users of funds have the option to return borrowed funds with delay, which eliminates the illiquidity that is characteristic for direct funding and 3. They provide economies of scale in investments because they mobilize huge amount of capital on the basis of the accumulation of small amounts of individual premiums of the insured which provides support for large investment projects and encourages economic efficiency.

In order to improve their efficiency insurance companies collect a lot of information about the rating of companies, their managers and projects in order to bring more rational decisions regarding investments in those companies. By investing in those companies and directing capital to the most profitable projects insurance companies give a positive signal to other potential investors, which improves the efficiency of the capital allocation and supports economic growth and development. Efficient allocation of collected funds derives from the function of accumulation of financial resources. Individual savers and investors often lack the time, resources and knowledge needed for the efficent capital allocation and risk assessment in comparison to professional investors, such as insurance companies. Insurance companies invest only in the best companies, managed by the best teams of professionals and in the best possible projects. In addition, insurance companies monitor the business they invested in, either as investors or as insurers and on that basis direct business, projects and management teams to work in the interest of their stakeholders.

Insurance companies also contribute indirectly to the wider, overall efficiency capital allocation through the directing investments of other investors, both corporate and private sector. Having in mind that insurance companies invest only in the most profitable securities, companies or projects, many investors follow investment decisions of insurance companies and in that way also improve efficiency of the general capital allocation.

Non-life insurance includes property and liability insurance. Those insurance types are basic for the business in the modern economy. In non-life insurance the occurrence of the insured event is less predictable compared to life insurance which results in less insurance reserves and requires different ways of their investing compared to investing of life insurance reserves. The risks are higher and a scope of damage, too. Also, risks in non-life insurance are usually not independent but are correlated, for example in terms of large natural disasters, which results in a high risk concentration. One of the main differences between the non-life and life insurance, which is of great importance for investments of insurance companies in the financial market is the duration of insurance coverage. Most of the non-life insurance policies are issued for a period of one year (except in the US where there are insurers who provide car insurance policies for periods of 6 months). In balance sheet of those insurance companies in the assets are prevailing cash and investments.

Bonds participate the most in the investment portfolio of non-life insurers and then common shares and they present approximately one-quarter of the portfolio. The financial result of non-life insurance companies is measured by combined ratio (the sum of the proportion of earned premiums after payment of insurance claims and the proportion of premiums received after covering the costs of the insurer). A typical combined ratio in the US is slightly above 100 (if the ratio is 100 it means that received premiums are equal to paid claims and operating costs of insurance company). Given that this ratio results from the core business of insurance companies, revenues that come from investments of insurance company are of great importance. Table 2 shows the structure of investments of non-life insurance companies in in Serbia in the period 2004-2013.

Table 2: The structure of the investment portfolio of insurance companies in Serbia in the period 2004-2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
bank deposits	n.a.	13.00%	28.00%	27.00%	30.00%	27,00%	32,00%	29,00%	21,00%	19,70%
cash	n.a.	n.a.	n.a.	n.a.	20.00%	21,00%	14,00%	12,00%	13,90%	14,50%
Receivables premiums which are not due for payment	n.a.	n.a.	n.a.	n.a.	12.00%	10,00%	9,00%	10,00%	7,10%	6,30%
Government securities	n.a.	n.a.	14.00%	10.00%	10.00%	16,00%	24,00%	29,00%	35,60%	38,90%
stock	n.a.	n.a.	17.00%	20.00%	7.00%	8,00%	6,00%	3,00%	n.a.	n.a.
real estate	n.a.	30.00%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
other investments	n.a.	57.00%	41.00%	43.00%	21.00%	18,00%	15,00%	17,00%	22,40%	20,60%

Source: National Bank of Serbia

The investment structure of non-life insurance companies in Serbia indicates a high share of bank deposits. This type of investments is considered as low risk and low returns investment. It is common in terms when the insurance companies on the financial market have no more profitable investment alternatives. It can be noticed continuous growth of investments in government securities which indicates conservative investments. There is also an unusually high proportion of cash in the investment portfolios.

Life Insurance companies provide resources through the sale of life insurance policies that consists of insurance and saving component. Life insurance is the long-term insurance and that is the most specific characteristic. On the basis of the life insurance contracts (which are usually concluded for a longer period - 10 years or more) is formed the mathematical reserve as a financial source of long-term investments. Those long-term funds are considered as the most qualitative sources of investments and determine the structure of insurance companies' investment portfolios. Life insurance companies have a stable and predictable cash inflows and therefore they have more investment opportunities (respecting regulatory constraints). Therefore long-term securities and fixed income securities are dominant in their investment portfolios, while shares participate less. They invest the most in corporate and government bonds and mortgage-backed securities or investment properties and less in common shares. The investment structure of life insurers in Serbia in the period 2004-2013 is presented in the Table 3.

Table 3: The structure of the investment portfolios of life insurers in Serbia in the period 2004-2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
bank deposits	n.a.	n.a.	16.00%	12.00%	19.00%	20,00%	30,00%	12,00	7,80%	5,20%
cash	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
receivables	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Government securities	n.a.	n.a.	n.a.	n.a.	71.00%	72,00%	59,00%	82,00%	85,70%	88,50%
stock	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities	n.a.	33.00%	57.00%	69.00%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bonds traded on stock exchange	n.a.	30.00%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
other investments	n.a.	37.00%	27.00%	19.00%	10.00%	8,00%	11,00%	6,00%	6,50%	6,30%

Source: National Bank of Serbia

Prevailing investments of mathematical reserves in the government securities reached almost 90% at the end of the observed period. The share of bank deposits is relatively high during the period and especially in 2008, 2009 and 2010, immediately after the global financial crisis.

5. Conclusion

The concept, role, significance, ways of functioning, efficient portfolio management and efficient management of institutional investors are becoming more important thanks to the transformation of socio-economic systems and promotion of capital markets in the countries in transition, including countries in the region. Insurance companies contribute to the privatization processes and the development of market economy and efficient capital allocation, which is particularly important for the economies of the countries of the region.

Insurance sector as a mobilizer of savings in the form of institutional investment is an integral part of the financial services sector of a national economy and has a strong influence on the development of the financial market and the performance of the overall economy. Through the mobilization and investment of the collected funds insurance sector supports economic development, social welfare but also the achievement of the primary goal, profit maximization with a certain risk tolerance that is interest of insurance and reinsurance companies, but also insureds, shareholders, economy and whole society. In addition to the benefits for the whole economy, insurance companies as institutional investors are also important for individual insureds through the possibility of reducing insurance premiums based on the good results from investments in the financial market. Purchase of insurance policies provides conditional promises of payment in case of adverse event, but has an investment element, too.

The great importance of insurance companies for the economy and society as a whole requires a need for government control over the business of insurance companies. Control occurs in two main areas of their business: in the area of providing insurance protection and in the domain of investments in financial markets. In most countries including our, institutional framework of the insurance sector, the activities of insurance companies as institutional investors are regulated in terms of the structure of their portfolio. The experience of insurance companies as institutional investors in Serbia indicate carefully structuring of investment portfolios. The aggregate structure of investment portfolios of insurance companies shows a high proportion of low risk securities, such as government securities, bank deposits and debt securities.

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