**Dr Jelena Kostić***
**Dr Valentina Ranaldi****

# INVESTMENT POLICY OF INSURANCE COMPANIES WITH SPECIAL REFERENCE TO THE REPUBLIC OF SERBIA IN THE EU ACCESSION PERSPECTIVE[1]

*Abstract*

*Insurance companies are considered to be stabilizers of the capital market. However, during the business they should also take into account their own solvency, which depends on the level of technical reserves for insurance liabilities. Increasing solvency can also be achieved by investing in insurance companies. During 2018, we analyzed the investment policy of insurance companies at the level of the Republic of Serbia for the period from 2013 to 2018. Based on that analysis, it could be concluded that insurance companies decided mainly to invest in government debt securities. They are less risky to invest, but also bring less income. The way insurance companies invest depends on both the regulations and their investment policy, which adapts to changes in the market and changes in relevant regulations.*

*In this paper, we start from the assumption that in relation to the previous period, the investment policy of insurance companies has not changed at all, and that a similar investment policy is present at the level of other countries. Apart from the legal-dogmatic method, the dominant method in this paper is the analysis of the content of the reports of the Insurance Supervision Department of the National Bank of Serbia, as well as other relevant reports. Using the above methodology, we try to confirm the assumptions and give recommendations for improving the investment policy of insurance companies, but with reference to the potential consequences caused by the COVID-19 which could be felt in the coming period.*

* Senior Research Associate, Institute of Comparative Law, Belgrade, Serbia, mail: *j.kostic@iup.rs*

** Research Fellow at "Niccolò Cusano" University, Faculty of Law, Rome, Italy. mail: *valentina.ranaldi@unicusano.it*.

[1] Paragraph 1 and 2 about investment policies of insurance companies at EU level are by Dr Valentina Ranaldi; paragraph 3, 4 and 5 about investment policies of insurance companies at the global level and in the Republic of Serbia are by Dr Jelena Kostić.

***Keywords:*** *Insurance companies, investment, investment policy, risk, securities*

## 1. Introduction

The investment activity of insurance companies is very important for improving their solvency. Therefore, an entire chapter of the Solvency II Directive is dedicated to this area[2]. That Directive, centred on the taking-up and pursuit of the business of Insurance and Reinsurance, has accepted the principle of responsible investment. According to this principle, when investing, insurance companies are obliged to take into account risks, measures for their reduction, monitoring, management and control, which is prescribed by Article 45, paragraph 1 of the Solvency II Directive. When investing, insurance companies should take into account the nature of the obligations as well as the responsibilities of the insurance company. It also depends on whether these are insurance companies whose predominant activity is life or non-life insurance. According to the provisions of the Directive, insurance companies are obliged to take into account the interests of all participants in the insurance market. Investments and assets that are not traded on an organized capital market should be maintained at a reasonable level[3]. In accordance with the provisions of that Directive, Member States may not require insurance undertakings to invest in specific categories[4]. However, when it comes to the provisions of the Insurance Act, they also prescribe certain restrictions regarding investment. The provisions of the said Law stipulate that an insurance company has an obligation to invest funds in accordance with the rules relating to the types of insurance it provides, which arise from the nature of the risks covered by that type of insurance, i.e. from the structure of related liabilities. According to the above provisions, the investment portfolio created by technical reserve funds should provide liquidity, security and profitability of the insurance company, settlement of its future liabilities, as well as risk dispersion[5].

In this paper, we start from the assumption that the investment activity of insurance companies in the Republic of Serbia has not changed to a large extent compared to the previous period and that the investment policy of insurance companies is influenced by a large number of factors, changes and

[2] The Solvency II Directive (Directive 2009/138/EC), amended by Directive 2014/51/EU of the European Union and Parliament and of the Council of 16 April 2014 (Omnibus II Directive).

[3] Article 132. of the Solvency II Directive.

[4] Article 133. of the Solvency II Directive.

[5] Article 132 of the Law on Insurance of the Republic of Serbia, Official Gazette of the Republic of Serbia, no 139/2014 and 44/2021.

some other circumstances. In addition, one of our assumptions is that the consequences of the pandemic caused by the COVID-19 virus will greatly affect investment activities. In order to confirm the stated assumptions, we will first look at the research we conducted in 2018, which was based on the analysis of the provisions of the Solvency II Directive, national regulations and the report of the National Bank of Serbia on insurance supervision for the period from 2013 to 2017. Based on the analysis of the report, it was noticed that insurance companies decided exclusively to invest in government (debt) securities, which contributed to the reduction of the budget deficit. In addition, such activity is conditioned by non-return to the capital market, but also by the provisions of various regulations which encouraged such a way of investing in insurance companies. Before comparing the investment policy of insurance companies from this period, with the investment policy of insurance companies from the period after 2018 to the first quarter of 2021, we will first point out the way of investing insurance companies from some other countries that differ having in mind the factors that decide on the choice of investment policy. A special challenge for investment activities in the coming period will be the consequences caused by the COVID-19 pandemic, so we will briefly look at some forecasts and views on this issue. We will pay special attention to the amendments to the Capital Market Law that took place in 2020 in order to revive economic activity and mitigate the consequences of the COVID-19 pandemic for business operations[6]. Based on the application of the above methodology, in this paper we have presented our conclusions and given recommendations regarding the investment activities of insurance companies in the coming period.

## 2. Factors affecting Investment Policies of Insurance Companies

There are different models of investment management that investors choose when choosing an investment policy. Insurance companies have regularity in capital inflows, so they can be considered very significant investors. Their investments are considered particularly significant in a period when the demand for capital is greater than the supply[7]. Their investment policy depends on various factors, such as e.g. liability structure, legal regulations, macroeconomic trends and supply of financial instruments[8]. There are different models for investment management. Investors prone to risk when

[6] The Law was amended by the Law on Amendments to the Law on Capital Market, *Official Gazette of the Republic of Serbia,* no 9/2020.

[7] A. Momčilović, „Društva za osiguranje na trđištu kapitala", University „Singidumum", Department of Postgraduate Studies according to the program of the Faculty of Financial Management and Insurance, MA thesis, Belgrade, 2014, 22, fn. 48.

[8] *Ibid*, 22.

investing take into account the expected return and risk of their portfolio investment. This investment management model is known as the Markovitz portfolio selection model. According to the market portfolio model, the investor chooses the appropriate combination between the optimal risk portfolio and risk-free securities. There are other investment modalities used by insurance companies. The first model is based on a perfect capital market, which does not involve taxes and transaction costs. It implies adequate exchange and quality of information and the absence of restrictions on investment. The same applies to the capital asset pricing model. This model is based not only on the assessment of risk and adequate prices of financial assets if the capital market is in equilibrium. It is also based on the assessment of whether the investment is favorable or unfavorable compared to the rate of return. The model chosen by insurance companies is implemented in their investment policies and is applied depending on the previously mentioned factors, which are decisive for their choice[9].

The investment policy of insurance companies is also influenced by macroeconomic conditions through the effects on the operations of insurance companies. Unemployment is a factor that adversely affects the insurance market. Shallow opportunities and legal regulations also have a great influence. An example is the global financial crisis of 2007. In that period, lower short-term interest rates and their maintenance through quantitative easing were recorded. At that time, monetary policy was aimed at stabilizing the financial system and economic recovery. This contributed to low interest rates, which had a negative impact on the assets and liabilities of insurers. Their profits were limited due to insufficient return on investment, which was especially present through insurance companies whose predominant activity is life insurance. They invested part of their assets in long-term fixed income securities[10]. Therefore, in that period, the presence of investments in government bonds and bonds of other financial institutions was noticed at the level of European countries. Therefore, in that period, it was noted that government and corporate bonds occupy a large part of the portfolio of insurers' assets, especially those whose predominant activity is life insurance[11.] The investment policy of institutional investors always strives to adapt to the economic crisis or unfavorable circumstances in business operations[12].

[9] H. Gründl, M. (Ivy) Dong, J. Gal, "The evolution of insurer portfolio investment strategies for long-term investing", *OECD Journal: Financial Market Trends,* 1/2016, 8 and 9.

[10] *Ibid.* 27.

[11] *Ibid.* 29 i 31.

[12] B. Marović, V. Njegomir, „Osiguravajuća društva u ulozi investicionih investitora", 26 susret osiguravača i reosiguravača, [29th meeting of insurers and reinsurers] Sarajevo, 2015. Available at: http://www.sors.ba/UserFiles/file/SorS/SORS%202015/Zbornik%20radova%202015/02-Marovic-Njegomir.pdf, 17.7.2021.

## 3. Investment Policy of Insurance Companies at the Global Level

According to the available data from 2018 on the world insurance market, bonds are still dominant in the portfolios of all types of insurance companies. They were present both in those whose predominant activity is life insurance, and in those whose predominant activity is non-life insurance. Bonds accounted for a large share of their direct investment. However, there is a risk of reinvestment due to the risk of maturing older bonds with higher yields, which can only be replaced by new bonds with lower yields[13].

Long-term liabilities are present in life insurance companies, and short-term liabilities in non-life insurance companies[14].

When it comes to investing in securities, there are differences in terms of investment of companies whose predominant activity is life insurance compared to companies whose predominant activity is non-life insurance. Thus, companies whose predominant activity is life insurance in Denmark invested 42.4% of their portfolio in shares and 34.2% in bills or bonds. In other countries, stakes in stocks were lower. In Australia, 15.3% of the portfolio of companies whose predominant activity is life insurance is invested in shares, and in Sweden 34.3%[15].

In Turkey, during 2018, there were no major investments in securities. According to available data, the assets of companies mainly engaged in life insurance were mainly held in cash and deposits, 35.4% of total assets were in bonds and 1.3% in shares. Companies that are mainly engaged in life insurance have invested most of their assets in collective investment schemes. In Austria, companies mainly engaged in life insurance invested 55.7% of their assets in collective investment schemes, in Brazil 53.4%, in Germany 36.2%, in Indonesia 33.8%, and in Luxembourg 28.6%. Investments in land and buildings in the observed period were dominant in Korea, the Netherlands and Switzerland, where they accounted for more than a third of investments (in Switzerland, investments in buildings represent 14.1% of investments of insurance companies whose predominant activity is life insurance)[16].

In most countries, insurance companies whose business is mainly life insurance have invested more than half of their portfolio directly in bills of exchange and bonds. Bonds accounted for more than 90% of investment portfolios in the following countries: Canada 93.5%, Greece 90.4% and Mexico 95.3%. In Greece and Mexico, public sector bonds dominated with 89.2% and

[13] Global Insurance Market Trends 2019, OECD, 2020. Available at: https://www.oecd.org/daf/fin/insurance/Global-Insurance-Market-Trends-2019.pdf, 17.7.2021.

[14] A. Momčilović, 22, fn. 48.

[15] Global Insurance Market Trends 2019, OECD, 2020. Text is available at: https://www.oecd.org/daf/fin/insurance/Global-Insurance-Market-Trends-2019.pdf, 17.7.2021.

[16] *Ibid.*

87.6% of investments of insurance companies whose predominant activity is life insurance, while in Canada these companies invested more in private sector bonds with 60.8% of investments than in public sector bonds with 32.7% of total investments[17].

Given the pandemic caused by the COVID-19 virus, insurance companies had to adapt to the new circumstances. Thus, during a pandemic, central banks (e.g., the Bank of England) lowered interest rates to boost the economy and mitigate the negative impact on the value of government and corporate bonds. This has negatively affected traditional savings and annuity life insurance business. In risk-based systems such as the system adopted with the adoption of the Solvency II Directive, there are mechanisms to correct the negative impact of market instability on insurance companies, bearing in mind that they are long-term investors. Their goal is to prevent forced sales during the crisis in the financial market. Markets in which most government bond investments are backed by asset acquisition programs by their central banks, there is more limited risk. Insurance companies or markets where most investments in corporate bonds are most exposed to risk, because the credit rating of these bonds changes faster in such situations. Insurance companies in Spain have invested 56.9% of their assets in eurozone government bonds, so it is certain that they will better cope with the crisis caused by the corona virus[18].

## 4. Investment Policy of Insurance Companies in the Republic of Serbia

According to the provisions of the Solvency II Directive, all funds should be invested in a way that ensures the quality, liquidity and profitability of the entire portfolio investment. Therefore, when drafting the investment policies of insurance companies, the nature of the obligations and responsibilities of the insurance company should be taken into account. When investing, the circumstance should be taken into account whether the insurance company is mainly engaged in life or non-life insurance, and taking into account all the interests of participants in the insurance market[19]. The provisions of that Directive should increase liability when investing and maintaining solvency[20].

[17] *Ibid.*

[18] Composition of insurance companies' investment portfolios in the wake of Covid-19, Summary of the report's conclusions, MAPFRE Economics, *Insurance industry investment* Madrid, Fundación MAPFRE, February 2020. Available at: https://www.economiayseguromapfre.com/number-5/composition-of-insurance-companies-investment-portfolios-in-the-wake-of-covid-19/?lang=en, 17.7.2021.

[19] Article 132. of the Solvency II Directive.

[20] More about that in J. Kostić, „Investiranje društava za osiguranje na tržištu kapitala Republike Srbije", in: *Odgovornost za štetu, naknada štete i osiguranje,* [Liability for

During 2016, the National Bank adopted the Strategy for the Implementation of the Solvency II Directive in the Republic of Serbia. During May 2021, the stated strategy was changed with regard to the change of the methodology for accession to the European Union, as well as the acceptance of the same by the Republic of Serbia[21]. Having in mind the challenges that will exist both at the level of the entire business and at the level of the insurance market, which are conditioned by the COVID-19 pandemic, in this part we will analyze the relationship of investment policies of insurance companies for the period from 2013 to 2017, as well as for the period from 2018 to the first half of 2021. During 2020, the Law on Capital Market was amended, which should facilitate both the issuance and trade of corporate securities.

### 4.1. Investment policy of insurance companies in the period from 2013-2017

In the period from 2013 to 2017, insurance companies invested most of their technical reserve funds in government securities. During 2013, according to the Report of the National Bank of Serbia, technical reserves of insurance companies whose predominant activity was non-life insurance were mostly covered by government securities, followed by bank deposits and cash, while only 11.7% of technical assets were invested in real estate. reserves. The technical reserves of insurance companies whose activity is predominantly life insurance are mostly invested in government securities with a total of 88.5%, and then in deposits with banks. Over time, insurance companies whose predominant activity is non-life insurance have increased their investment in government securities[22]. During the following year, the largest percentage of technical reserves was invested in government securities, other funds were invested in bank deposits and cash, and then investment property. A significant increase in investments in government securities was also recorded in insurance companies whose predominant activity is life insurance. As a percentage, their investment in 2014 amounted to 91.5%. The increase in investments of insurance companies in government securities was recorded in the following period. A slightly higher increase was recorded in companies whose predominant activity is non-life

damages, damages and insurance], (eds. Zdravko Petrović i Vladimir Čolović), Thematic collection of papers from the XXI International Scientific Conference, Institute of Comparative Law, Association for Tort Law, Judicial Academy, Belgrade, Valjevo, September 2018, 463-475.

[21] Strategy for the Implementation of Solvency II in the republic of Serbia, May 2021, Central Bank of the Republic of Serbia, https://nbs.rs/export/sites/NBS_site/documents/osiguranje/strategija_solventnost_II.pdf, 17.7.2021.

[22] Report for 2013, National Bank of Serbia, Sector for Supervision of Insurance Activities in Serbia, 16. https://nbs.rs/internet/latinica/60/60_6/izvestaji/izv_IV_2013.pdf, 17.7.2021.

insurance, while a slightly smaller increase was recorded in companies that deal mainly with life insurance[23]. However, the amount of investments in government securities has been extremely high in the past, for example. during 2015, it amounted to as much as 93.2% of technical reserves. Investments in government securities increased over the next two years, both in insurance companies that deal mainly with non-life and those that deal mainly with life insurance[24]. Such an approach is expected, because in life insurance companies there is a stable flow of insurance premiums, long-term sources of funds, long-term placements, time coincidence, payment and disbursement and predictability of the insured event, ie predictability of withdrawal of funds. Secure and stable payments, strictly dedicated character of funds, high degree of predictability of insured cases and the fact that insured cases are not realized so often contribute to the accumulated funds on the basis of paid premiums can be invested in various forms of financial assets. nsurance companies whose predominant activity is life insurance as intermediaries in the capital market provide sources of financing for both the private and public sectors[25]. In this way, it contributes to the reduction of the budget deficit. Investing in shares of commercial companies is a riskier investment than investing in bonds, and investors can rely on the nominal value of bonds and thus preserve their assets. It should be borne in mind that in order to encourage economic activity in the capital market during 2020, the Law on Capital Market was amended in order to encourage the issuance and purchase of corporate bonds. However, in the reports of the National Bank on the supervision of the operations of insurance companies in the period from 2013 to 2017, there is no data on the investment of technical reserves in corporate securities. Although this would be an incentive for economic activity, our position is that, especially in the next period, insurance companies will rarely opt for this option. Although corporate securities enable higher returns, they are also riskier securities[26].

[23] Report for 2014, National Bank of Serbia, Sector for Supervision of Insurance Activities in Serbia, 16, https://nbs.rs/internet/latinica/60/60_6/izvestaji/izv_IV_2014.pdf, 17.7.2021.

[24] Report for 2015, National Bank of Serbia, Sector for Supervision of Insurance Activities in Serbia, 20. https://www.nbs.rs/internet/latinica/60/60_6/izvestaji/izv_IV_2015.pdf, 17.7.2021.

[25] J. Labudović, „Uloga i značaj kompanija za osiguranje života kao institucionalnih investitora na finansijskom tržištu", *Revija za pravo osiguranja,* [Review for Insurance Law], 4/2007, 31.

[26] Report for 2016, National Bank of Serbia, Sector for Supervision of Insurance Activities in Serbia, 22 and 23. https://www.nbs.rs/internet/latinica/60/60_6/izvestaji/izv_IV_2016.pdf and Report for 2017, National Bank of Serbia, Sector for Supervision of Insurance Activities in Serbia, 23 and 24. https://www.nbs.rs/internet/latinica/60/60_6/izvestaji/izv_IV_2017.pdf, 17.7.2021.

### 4.2. Investment policy of insurance companies in the period 2018-2021

It seems that the investment policy of insurance companies at the level of the Republic of Serbia for the period from 2018 to 2020 has remained unchanged.

At the end of the fourth quarter of 2018, the funds of technical reserves of non-life insurance in 2018 were mostly invested in government securities, then in technical reserves at the expense of co-insurers, reinsurers and retrocessionaires, deposits with banks and cash. The smallest amount of technical provisions was invested in real estate and receivables and overdue premiums. Compared to the previous period, only the investment structure has changed. Technical reserves have been increased at the expense of co-insurers, reinsurers and retrocessionaires. Regarding the investment of technical reserves of insurance companies whose predominant activity is life insurance, the increase in the share of deposits with banks and cash has changed, but the investment of technical reserves in government securities still dominates[27].

#### 4.2.1. Investment policy of insurance companies during 2019

During 2019, the investment policy of insurance companies did not change much compared to previous years. The structure of investments was observed both in terms of investments of insurance companies that mainly deal with life, and in terms of investments of insurance companies that mainly deal with non-life insurance. Funds of technical reserves of non-life insurance were mostly invested in government securities of 61.1%. 19.0% was invested in co-insurers, reinsurers and retrocessionaires, 13.1% in bank deposits and cash, 4.2% in real estate and 0.8% of receivables for overdue premiums. Investment in technical life insurance reserves was mostly directed to government securities of 94.0%, while deposits with banks and cash were represented by 3.5%[28].

#### 4.2.2. Investment policy of insurance companies during 2020

A very similar investment policy is present during 2020. Funds of technical reserves of non-life insurance were mostly invested in government securities of 72.7%. 11.7% was invested in deposits with banks and cash, 8.8% in technical

[27] Report for 2018, National Bank of Serbia, Sector for Supervision of Insurance Activities, Insurance Sector in the Republic of Serbia, 22 https://nbs.rs/export/sites/NBS_site/documents/osiguranje/izvestaji/izv_IV_2018.pdf, 17.7.2021.

[28] Report for 2019, National Bank of Serbia, Sector for Supervision of Insurance Activities, Insurance Sector in the Republic of Serbia, 22, https://nbs.rs/export/sites/NBS_site/documents/osiguranje/izvestaji/izv_IV_2019.pdf, 17.7.2021.

reserves at the expense of co-insurers, reinsurers and recessionaires, 4.3% in real estate, and less than 1% of investments in overdue premiums. If we compare the structure and level of investments in relation to 2019, we notice an increase in the share of government securities and a decrease in the share of technical reserves at the expense of co-insurers and retrocessionaires, as well as the share of deposits and cash[29].

In the structure of investments of technical reserves of life insurance, the most represented was also the investment in government securities with 92.5%, while deposits with banks and cash amounted to 2.5% of investments. However, the amount of technical reserves was reduced in that period due to the settlement of large property damage in full[30].

As it can be concluded, insurance companies operating on the territory of the Republic of Serbia have had a very similar investment policy for many years. Having in mind the pandemic caused by the COVID-19 virus, 2021, but also the next period will represent a challenge both for the entire business and for the insurance sector.

#### 4.2.3. Investment policy of insurance companies in the first quarter of 2021

Given the corona virus pandemic, emerging insurance markets will recover capital more slowly than more developed markets. Due to the risk of investing, especially in relation to insurance that mainly deals with life insurance, insurance companies generally decide to invest in investments with a safe return. That is why they are holding on to settling future obligations. However, such an approach is often criticized in science and it is stated that a special problem is that over 75% of the balance sheets of insurance companies include the amount of money from investments in investments with secure income. It is therefore stated that this has been a problem in both the US and Germany for several years. Because of that, the United States had to find better income streams from other types of investments than safe government bonds and corporate bonds that they used to buy. Insurers have been facing falling interest rates due to investing in safe income. For some, they reached zero, for some they became negative, so there was a need to find alternative investments. One of the possibilities was the purchase of property, bearing in mind that these funds can satisfy the need for higher yields[31].

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[29] Report for 2020, National Bank of Serbia, Sector for Supervision of Insurance Activities, Insurance Sector in the Republic of Serbia, 22, https://nbs.rs/export/sites/NBS_site/documents/osiguranje/izvestaji/izv_IV_2020.pdf, 17.7.2021.

[30] *Ibid.* 23.

[31] M. P. Liedtke, Vulnerabilities and resilience in insurance investing: studying the COVID-19 pandemic, *The Geneva Papers on Risk and Insurance - Issues and Practice*

The investment policy of insurance companies operating in the territory of the Republic of Serbia has not changed significantly compared to the previous period. Thus, during the first quarter of 2021, there is a trend that the funds of technical reserves of companies whose predominant activity is non-life insurance are largely invested in government securities, then in deposits with banks and cash, real estate and claims for overdue premiums. Compared to 2020, there was a percentage decline in the share of government securities and deposits and cash, and the share of technical reserves at the expense of co-insurers, reinsurers and retrocessionaires increased. In the structure of investments in life insurance technical reserves, the most common was investment in government securities, 3.2% was invested in real estate, and 3.1% in bank deposits and cash. Such an investment policy was most acceptable even in the time of the pandemic[32].

During 2020, the Law on Capital Market was amended in order to encourage investment activity. One of the problems that previously negatively affected the presence of corporate securities on the capital market was the preparation of the prospectus. One of the goals of the amendment to the Law on Capital Market was to enable the recovery of the national economy in order to facilitate access to financing sources for companies, as well as additional investments of investors in the domestic capital market. Amendments to the said law stipulate that the form and minimum content of a single prospectus relating to company securities shall be regulated by a sub-legal act of the Commission and that it shall not contain an abbreviated prospectus. According to the new legal solution, information on the issuer from the prospectus, provided that it is available in public registers, on the issuer's website, as well as information related to the issuer's financial and audit reports may be presented in the prospectus by downloading or direct linking. Such a solution facilitates the process of issuing securities. The amendment of the provision of Article 123, paragraph 2, item 2) of the Law on Capital Market is also important for the encouragement of investments on the capital market. Prior to the amendment, this provision stipulated that the assembly of a public company may make a decision on withdrawal of shares from the regulated market or MTP if the period of six months preceding the decision is the total turnover of shares subject to withdrawal from the regulated market, ie MTP amounted to less than 0.5% of their total issued number. The time period from convening the shareholders' assembly and announcing the daily until the decision was made opened a space for embezzlement and the

(2021) 46: 272, https://doi.org/10.1057/s41288-021-00219, Available at: https://link.springer.com/article/10.1057/s41288-021-00219-5, 17.7.2021.

[32] Report for the first quarter of 2021, National Bank of Serbia, Sector for Supervision of Insurance Activities, Insurance Sector in the Republic of Serbia, 12 and 13. Available at: https://nbs.rs/export/sites/NBS_site/documents/osiguranje/izvestaji/izv_I_2021.pdf, 17.7.2021.

possibility of creating artificial liquidity in the market in order to prevent the decision to exclude shares from the market. The latest amendments to the Law specify the moment of calculating liquidity, ie. the time determinant for calculating the volume of share turnover was moved from the day of making the decision on withdrawal of shares from the regulated MTP market to the day of making the decision to convene a session of the shareholders' assembly. This prevents the artificial creation of liquidity. The period in which the turnover of shares on the market is calculated represents the real market turnover of shares on the market. The time period in which the turnover of shares is calculated as a condition for making a decision on the exclusion of shares has been reduced from six to three months. Within the same article, the time period for calculating the volume of turnover was shortened from three to one month. These changes should have an incentive effect on potential investors and prevent the possibility of making decisions based on incorrect information. When deciding on an investment, insurance companies will not only take into account regulations, but also the investment risk and the risk of their own solvency[33].

## 5. Conclusion

The investment policy of insurance companies of the Republic of Serbia from 2018 to the first quarter of 2021 was not significantly applied in relation to the period from 2013 to 2017. During that period, insurance companies mainly invested current budget reserve funds in government securities. In that way, they opted for a less risky option, but which in turn brought lower yields. However, unlike American insurers, which invest exclusively in corporate securities, in the Republic of Serbia the existing way of investing technical reserve funds is safer. In that way, the budget deficit is reduced, and having in mind the unfavorable effects on business operations, which were caused by the COVID-19 virus pandemic. It should be borne in mind that the capital market in the United States is more developed than e.g. on the capital market of the Republic of Serbia. In addition, the advantages of such an investment policy in a pandemic should be borne in mind. In order to stimulate economic activity, central banks are lowering interest rates. However, this has a negative effect on the value of corporate securities, which also has a negative effect on investing in them. Insurance companies are less interested in taking risks in such situations.

During 2020, in order to stimulate economic activity, the Law on Capital Market was amended. Its provisions have simplified the procedures for issuing and trading corporate securities. Although this activity was supposed to stimulate

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[33] J.. De Mey, „Insurance and the Capital Market", *The Geneva Papers on Risk and Insurance-Issues and Practice*, Vol. 32, Issue 1, Palgrave Macmillan UK 2007, 35-41 https://doi.org/10.1057/palgrave.gpp.2510114 , 17.7.2021.

economic activity, bearing in mind the traditional focus of investment policies of insurance companies on the purchase of government securities, it can hardly be expected that in the coming period investments of insurance companies in corporate securities will increase in relation to government securities. . It is possible that the percentage share of investments in them will increase, but not in relation to investments in government bonds.

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## *INVESTICIONA POLITIKA DRUŠTAVA ZA OSIGURANJE SA POSEBNIM OSVRTOM NA REPUBLIKU SRBIJU*

### *Rezime*

Društva za osiguranje se smatraju stablizatorima tržišta kapitala. Međutim, tokom poslovanja treba da vode računa i o vlasitoj solventnosti, a koja zavisi od nivoa tehničkih rezervi za preuzete obaveze iz osiguranja. Povećanje solventnosti može se ostvariti i investiranjem društava za osiguranje. Tokom 2018. godine analizirali smo investicionu politiku društava za osiguranje na nivou Republike Srbije za period od 2013. do 2018. godine. Na osnovu te analize moglo se zaključiti da su se društva za osiguranje odlučivala uglavnom za investiranje u državene dužničke hartije od vrednosti. One su manje rizične za ulaganje, ali i donose manji prihod. Način ulaganja društava za osiguranje zavisi kako od propisa, tako i od njhiove investicione politike koja se prilagođava promenama na tržištu i izmenama relevantne regulative.

U ovom radu polazimo od pretpostavke da se u odnosu na prethodni period investiciona politika društava za osiguranje nije uopšte promenila, kao i da je slična investiciona politika prisutna i na nivou drugih zemalja. Osim pravno-dogmatskog metoda dominantan metod u ovom radu je analiza sadržaja kako izveštaja sektora za nadzor osiguranja Narodne banke Srbije, tako i ostalih relevantnih izveštaja. Korišćenjem navedene metodolgije nastojimo da potvrdimo pretpostavnke i damo preporuke za unapređenje investicione politike društava za osiguranje ukoliko je to moguće imajući u vidu i da bi ekonomske posledice uslovljene pandemijom COVID-19 mogla tek da se osete u narednom periodu.

**Ključne reči:** društva za osiguranje, investiranje, investiciona politika, rizik, hartije od vrednosti.