



The development of Albanian insurance market

Eglantina ZYKA¹, Areti STRINGA²

¹*Faculty of Economy, University of Tirana*

²*Faculty of Economy, University of Tirana*

Abstract.

Risk is inseparable from life and nobody is exempt of risk. Because of the pervasiveness of the risk and its significant adverse economic effects, man is constantly searching for ways in which he can manage risk to his advantage. Insurance is one of the most important methods of risk transfer. The subject of this article is the development of the insurance market in Albania. Insurance in Albania, although they started very late compared with other developed countries, they have their own characteristics and history. The Albanian market of insurance is a diversified market, different companies of non-life and life sector, with domestic and foreign capital, which operate in Albania and outside of the country. This insurance market remains not very developed, 10 euros /capita, compared with developed countries (600 \$/capita), is dominated by compulsory insurance, strong competition, etc. Despite the problems that have this new market, opportunities exist for growth, development and perfection of himself as a market with its features.

Keywords: insurance market, risk, risk transfer

1. 1. Introduction

The whole human society, owners, businessmen, investors, farmers, traveler, youth and elderly in their daily life often are before events and uncertain situations, which bring with them different life or material risks personal. Risk is an uncertainty or an unpredictable opportunity to happen a disaster that causes loss and expressed in economic damage.

Risk management is the process that identifies exposures risk, which covered a society and select appropriate techniques to transfer these exposures risk. Insurance is a good method of risk transfer in those cases where the exposures risk have a low probability of occurrence, but the severity of loss is high (severity of the exposure risk has to do with the cost of possible loss that can occur). For example: the possibility that your house totally destroyed by a fire or storm is relatively low, but the severity of loss is great. Insurance implies an agreement between the insured, who pays a premium and the insurer promises to reimburse the insured financial losses incurred during the defined risks.

Development of market economy led to the wide spread of insurance companies in all countries of the world because the risks damage became greater.



2. 2. Brief story about Albania.

Albania is a country, which has made significant progress over its transition from a communist regime towards a market-based economy. Albania has pursued major structural and economic reforms and has pushed ahead with the establishment of democratic institutions. With the exception of the pyramid crisis of 1997, it has achieved and sustained strong economic growth, while containing inflation almost every year. The economy has shifted from agriculture and industry to services and construction. Meanwhile, large scale migration has fueled high workers' remittances, which make up around 8-13 percent of GDP.

Albania has successfully maintained macroeconomic stability over the last 10 years with steady growth and low inflation, but challenges loom ahead. The Albanian economy recorded strong and sustained growth of 8% in 2008 and, according to the authorities' data, of 6% in the first quarter of 2009, mainly driven by large public investments in the road network. Private sector activity benefited from strong, albeit slowing, credit growth, and from improved stability of the energy supply. So far, the international financial and economic crisis has resulted in lower demand for Albanian exports, a fall in net inflows of monetary transfers in the form of remittances, and a marked slowdown in credit growth. Per capita GDP in purchasing power parities was estimated at 25% of the EU-27 average in 2008, up from 24% in 2007.

In January 2003, Albania started negotiations with the European Union (EU) for a Stabilization and Association Agreement. In February 2008 the European Council adopted a new partnership with Albania. Since January 2007, pre-accession financial assistance to Albania is provided under the new Instrument for Pre-Accession Assistance (IPA). The European Commission allocated a total of € 81.2 million in 2009. Main focus areas continue to be justice and home affairs, administrative capacity-building, economic and social development and democratic stabilisation as well as preparation for future management of EC Funds. On April 4, 2009, at the Strasbourg/Kehl Summit, Albania became a new member of NATO. The prospect for EU membership continues to command broad public consensus and have yielded political cooperation around policy reform efforts. Albania submitted its application for EU membership on April 28, 2009. Albania is well-poised to continue its positive economic performance and to advance towards its goal of European integration.

3. 3. Characteristics of the insurance market in Albania.

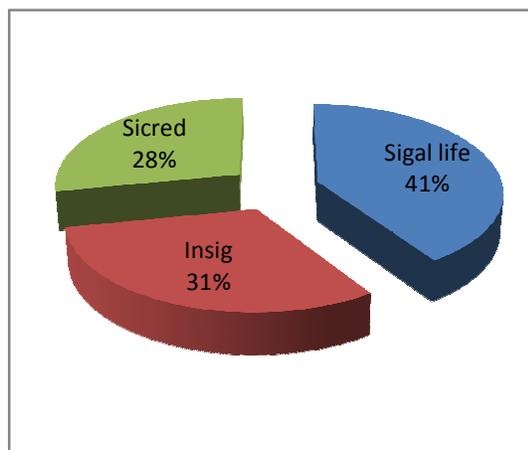
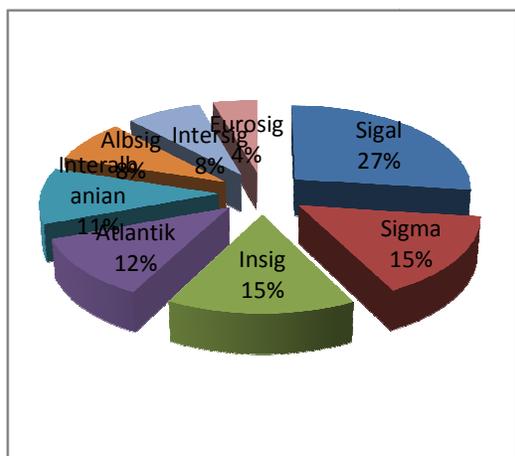
Insurance in Albania have long existed, although they started very late compared with other developed countries, they have their own characteristics and history. History of Albanian insurance market has its origins before World War II, in which the period of insurance activity conducted by English society, France and later Italian. The period after World War II until 1991: in terms of an internal isolation of the insurance market prevailing forms of compulsory insurance. After 1999, in this market is observed the entry of some private insurance companies, which brought an increase in competition in this market. During these years has created a legal basis regulating the rights and obligations between the insured and the insurance society, have expanded the kinds and types of insurance coverage

and are creating conditions and the possibility of reinsurance with foreign societies, as a necessary means of protect the interests of policyholders.

The Albanian market insurance is divided between non-life insurance companies: Sigal- 27%, Sigma-15.5%, Insig- 15.2%, Atlantik- 11.6%, Interlabian - 10.6%, Albsig-8%, INTERSIG – 7.6% and Eurosig - 4.5%. Sigal led the market with about 27% of premiums.

Figure 1. Market share, non-life insurance.

Figure 2. Market share, life insurance.



Source: Albanian Financial Supervisory Authority (AFSA), Statistical Report 2008

And life insurance companies: SigalLife- 40.6%, Insig- 31.3% and Sicred-28.1% Sicred. Sigal-Life led the market with about 40% of premiums.

The *Herfindahl index (HI)*, also known as *Herfindahl-Hirschman Index* or *HHI*, is a measure of the size of firms in relation to the industry and an indicator of the amount of competition among them. It is defined as the sum of the squares of the market shares of the 50 largest firms (or summed over all the firms if there are fewer than 50) within the industry, where the market shares are expressed as fractions. The result is proportional to the average market share, weighted by market share. As such, it can range from 0 to 1.0, moving from a huge number of very small firms to a single monopolistic producer. Increases in the Herfindahl index generally indicate a decrease in competition and an increase of market power, whereas decreases indicate the opposite.

$$H = \sum_{i=1}^N s_i^2$$

where s_i is the market share of firm i in the market, and N is the number of firms.

A HI index below 0.01 indicates a highly competitive index.

A HI index below 0.1 indicates an unconcentrated index.



A HI index between 0.1 to 0.18 indicates moderate concentration.

A HI index above 0.18 indicates high concentration

From the statistics of market share of non-life insurance in Albania this index is :

$$HI = 1*0.27^2 + 2*0.15^2 + 2*0.11^2 + 1*0.08^2 + 1*0.05^2 = 0.1574$$

where one firm produce 27%, 2 firms-15%, 2 firms -11%, one firm-8% and one firm 5%.

The HIndex is between 0.1 to 0.18 which indicates moderate concentration in Albanian non-life insurance market.

For life market this index is:

$$HI = 1*0.28^2 + 1*0.41^2 + 1*0.31^2 = 0.3426$$

The HIndex is above 0.18 and indicates high concentration in life insurance market in Albania. As the market concentration increases, competition and efficiency decrease and the chances of collusion and monopoly increase.

The statistics noted that the market insurance is shared: 93% of non-life insurance companies and 7% of life insurance companies. By looked gross written premium by geographical distribution, there is a concentration of insurance market in large districts where in: Tirana 55.15%, Durres 9.56%, Korca 6.55%, Fier 5.87%, Elbasan 4,13%, Shkodra 3.86%. (see figure 3).

In the insurance market is dominated by private companies, where only INSIG company is state-owned companies. The presence of foreign capital in the Albanian insurance market since 2007, testified that this market is huge development potential and attractive to foreign investors. In the Albanian insurance market participate: "Aspis Group" based in Cyprus, with 51% of the shares of the insurance society "Interalbanian" , "Vienna Insurance Group" based in Amsterdam, Netherlands with 75% + 1 of shares of the insurance society "Sigma" and society "Uniqa Group, Austria" with 45.62% of Sigal Holding. The Albanian insurance market note that the capital is 79% domestic, 18% Austrian and 3% Greek. (see figure 4).

On the other hand the insurance companies operating in the Albanian market have increased their presence outside the territory of the Republic of Albania. Thus, the insurance company as "Insig", "Sigal Uniqa Austria Group", "Sigma" and "Albsig" have spread to Kosovo and Macedonia.

Figure 3. Market share, by district

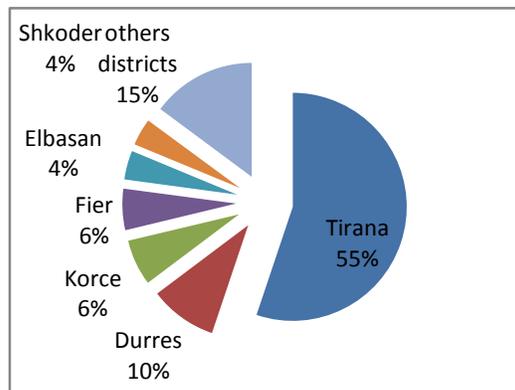
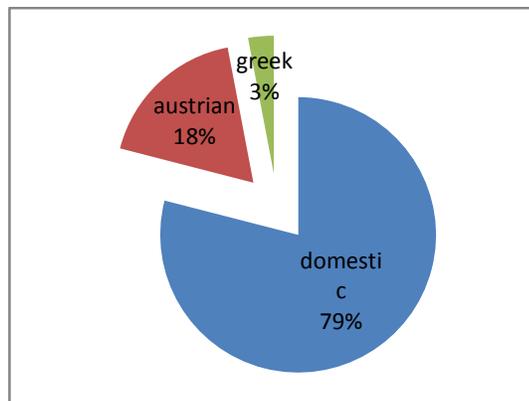


Figure 4. Market share, by capital



Source: AFSA, Statistical Report 2008

Table 1. Some characteristics and financial indicators on insurance market.(in million leks-national currency)

Years	2006	2007	2008
Total assets	11453	13360	15523
Gross written premiums	4542	5948	7076
Non-life	4239	5538	6561
Life	302	410	515
Gross Claims Paid	1287	1294	1571
Non-life	1275	1250	1526
Life	12	44	45
Premium growth rate	13.22%	30.97%	19.31%
Report claims / net premiums	36.65%	24.19%	25.78%
Report expenditures	56.06%	55.62%	64.87%
Report of payment ability	447.40%	539.19%	424.48%

Source: AFSA, statistical report

Total assets of the insurance market value reached 15.5 mld lek by that was 13.3 mld in 2007, marking a 16% increase in size. Voices main assets are: deposits, real estate ect. Deposits in banks constitute



the main voice of assets reaching 1.5 MLD leks in 2008, or 49% of total assets. Treasury bonds make up about 4% of total market assets.

The income from gross written premiums have been increased from one year to another and in 2008 reached 7.08 mld lek or 19% more than in 2007. Growth rate of premiums in 2008 is lower than in 2007 (30.97%) but again is within the boundary of the permitted norms. (-40% to 40%). Increasing the level of premiums written is a measure of success sales companies. However, it is worth mentioning that the development of the sector remains far from the potential levels offering the country and the development of insurance market in other countries of the region.

In life insurance premiums in 2008 totaled around 515 million leks, or about 26% higher than in 2007. Growth in life insurance is closely linked with increasing levels of lending and life insurance for effect credit. Other products of life insurance remain undeveloped in Albania. Despite the marked growth of life insurance, again 93% of premiums come from non-life insurance in 2008.

Fulfillment of obligations arising from insurance contracts is the main goal of providers in the market, which binds directly with the payment of damages. During 2008, Gross Claims Paid by insurance companies came in around 1,57 billion lek, or about 21% more than in 2007. Most gross claims were paid the compulsory and voluntary insurance non-life with 97% of the total gross claims paid and 3% for the life sector. Report low claims / premium shows that there is still much to be done to improve customer service to the public in general.

Report claims / premium remains at low levels, while 25.78% when the allowed rate is from 50% to 80%. Low rates of damage can be justified in a moment but rates lower than 50% are also signs that a market is not functioning properly

Report expenditure continues to be high (64,87%) for an insurance company, when rates are allowed from 25% to 50%, but this is a phenomenon for all the insurance market. This report is the extent of 65% to market non-life insurance and 52% for the life insurance market. The operating costs have greater weight in the cost structure of an insurance company, captured the extent of 72% for non-life market and 81% for the life insurance market.

Report of the payment ability level is at 424.48% allowed, which vary from 150% to 300%. An insurance company is solvent, if it is able to fulfill all obligations of all contracts under all possible circumstances in the foreseeable future. Margin of actual payment ability for a non-life insurer to run better is usually at least 200% of the required minimum. When the percentage falls below this, the supervisor will usually start with closely monitor provider in an environment of an industrial country.

From the table below noticed that the insurance market is shared: 44% voluntary insurance and 56% compulsory insurance, where in comparison with the two previous years, gross written premiums of compulsory insurance accounted 65% to 70% of market.



Table 2. Compulsory and voluntary insurance for the period 2001-2008 (in million leks)

Years	2004	2005	2006	2007	2008
Compulsory insurance	2968	2576	2973	3868	3995
Voluntary insurance	1069	1196	1267	1670	2567

Source: AFSA, statistical report

Compulsory insurance. Compulsory insurance has increased from year to year and during 2008, the compulsory motor insurance (the liability of holders of motor vehicles against third parties) continued to dominate the market structure, bringing about 56% of the revenue from gross premiums written insurance market. Law 'for compulsory insurance in the transport sector' expands the range of products compulsory passenger insurance from accidents in public transport and insurance of liability for damage caused to third party by use of air transport assets and speedboats.

Voluntary insurance. In 2008, income from voluntary insurance reached about 3 billion lek, or 48% more income than a year ago. Growth of voluntary insurance premiums continues to be linked closely with the level of lending by banks and entry of big investors primarily in infrastructure.

The voluntary insurance non-life, with revenues about 2.6 billion lek, took first place insurance for civil general responsibilities 31%, followed by assurances from fire and natural hazards with about 28% of the income of this group, CASCO insurance with about 20% and lower weight had accident and health insurance and warranty insurance. Greater weight on income from accident and health insurance held travel health insurance by about 70% income of this group. Foreign investment in insurance are accompanied with interest to the introduction of new products, mainly in the field of health.

The insurance market in Albania minimum capital for each company is 370 million lek, about 3 million euros, the level required by EU directives, wholly invested in deposits in the banking sector in Albania and the Albanian government treasury bills. Activity of insurance companies is overwhelmingly concentrated in the Albanian territory and focused on traditional and short-term products of insurance in non-life and life sector. Albanian insurance market does not offer long-term or complicated products related to financial investment schemes or risk transfer. The global crisis has not affected the insurance market in Albania, but certainly not the profits of companies will escape its effects.

Albanian insurance market faces difficulties as:

-Albanian companies and businesses, as well as individuals currently are not very inclined to spend more for insurance. This is due to lack of information, lack of education to be provided, financial inability due to level of low income population, etc.

Information which is designed to increase awareness about the risks and the importance of protecting against major risks, including through insurance, is usually a matter for governments, for at least for



catastrophic risks and long-term risks (eg life insurance for retired, long-term care and disability) that people generally fail to understand and manage in a reasonable and stable manner. Developed countries used different information and education forms as : a preventive program, traditional media publications (eg leaflets, brochures, guides and other publications), which complemented by poster campaigns, prevention campaigns in the media and so upward, via the Internet, mobile phone, telephone center, information point and direct counseling center. Activities such as lectures, conferences and speeches, they also aim to include more and more customers. The Internet has become other channel information to make comparisons, find specialist advice and is used by Internet users as individuals and private organizations in most countries.

Research on the impact of programs to increase risk awareness and education on securities, considered by most countries as essential to avoid unnecessary costs and to provide an adaptation of better regulation of new policy measures take.

In Albania, the insurance market remains not very developed, 10 euros /capita or 0.6% e GDP, while in developed countries reaches 600USD/capita. Claims are paid only to the extent 26% of revenues while this ratio should be at 50% to 80%.

Insurance market is dominated by compulsory insurance. The market is shared 56% compulsory insurance and 44% voluntary insurance, but even these figures do not represent the real situation of voluntary insurance because most of them are indirectly compulsory as required by banks but also as provided by the government in public investment.

Fierce and unfair competition, insurance companies offer insurance with lower prices than those provided by law to increase the market share that they possess.

Despite the problems that have this potential market, opportunities exist for growth, development and perfection of himself as a market with its features.

4. 4. Conclusions and recommendations

- Insurance market in Albania is a diversified market, which operate several companies that have a wide geographical spread within the country. In the insurance market there is a growing interest of foreign capital to invest in the domestic market and the extent of outside country of Albanian companies.
- Insurance market in Albania is a modest market focused on compulsory insurance. The volume of voluntary insurance represents the development of an insurance market, which in Albania is still at low levels. Growth of voluntary insurance premiums continues to be linked closely with the level of lending by banks and entry of big investors primarily in infrastructure. Current legislation is old and supervisory authorities should better monitor the respect of certain fees for premiums because otherwise such a situation, not only reduces the confidence of client insurance companies, but also obliges them to consider insurance as an



- obligation to the state and not as a tool, which will serve as protection, leaving more space for voluntary insurance, as necessary and important.
- Insurance market is not a market fully liberalized. For non-life insurance market the HIndex is 0.1574, that means a moderate concentration of the firms and for life insurance market this index is 0.3426 that means a high concentration. As the market concentration increases, competition and efficiency decrease and the chances of collusion and monopoly increase.
 - Premium tariff liberalization, especially in compulsory insurance market will help further development of insurance market in Albania. An electronic platform reporting of insurance companies will enable the existence of a historical data basis on damages, which will mitigate the possible liberalization of tariffs or passage in the approach genuine "risk-based", which is based on the risk of each insured to determine his premium. In 90% of EU countries this market is fully liberalized.
 - Different actors in the field of insurance as the state, insurance companies, consumer associations should use more different forms of education about the importance of insurance. Implementation of various programs in the field of insurance education should be analyzed for effectiveness of the information that they transmit to consumers.
 - Regulatory authority should better monitor the insurance market for a better functioning of this market. Regulatory authority, exercising regulatory and supervisory function, should exert pressure for the creation of an efficient market, safe and sustainable and to protect consumers, to monitor effectively the activities of insurance companies, through strengthening the regulatory framework and review legal basis for the insurance market.
 - And finally the insurance companies should play by the rules of the game, with honesty and responsibility, by the customer aware of the importance of voluntary and compulsory insurance, offering a variety of products and package products, as individuals, as well as for businesses, not assume insurance that exceed their limits of liability, paying claims in the appropriate time and value.

5. References

- AFNOR. 2002. *Management du risqué globale*.
- Godet Michel, *Risques et prospective, entreprenariat de l'assurance*.
- Andree Charles, Farid Baddache. Editions AFNOR.2002. *Prevenir les risques. Agir en organisation responsable*.
- Catherine Liston-Hayes, Alan Pilkington, (2004). *Inventive concentration: an analysis of Fuel cell patents, Science and Public Policy*.
- Catherine Veret, Richard Mekouar, Dunand, 2005. *Fonction Risk Manager*.
- The World Bank in Albania. November 2006. Rodney Lester, Serap Gonulal, *Analysis and monitoring report for insurance companie*.
- AFSA, *Statistical report 2008 in Albania*.
- AFSA, *Statistical report 2007 in Albania*.
- www.isvap.it;
- www.naic.org/consumer_home.htm