

LATEST DEVELOPMENTS IN ALBANIAN INSURANCE MARKET

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Abstract

Insurance companies are very important financial intermediaries. Despite the challenges and the problems they have faced, their number has increased steadily. This expansion is accompanied by an expansion in services and products offered by Insurance Companies. The competition among insurance companies has become stronger in attempt to take a larger share of the insurance market. But, on the other hand, the competition has sometimes been very unfair and not honest. These companies have faced a lot of problems especially as the financial crisis unfolded even in Albania. In this paper will be analyzed the problems and the challenges faced by the insurance market. An introduction of the current situation will be followed by a presentation of the progress in several years. There will be provided some current economic indicators, and a thorough analysis of performance indicators of insurance companies operating in Albanian Insurance Market. In the end, it will be provided some conclusions and recommendations. Mostly will be used the narrative method. Also, secondary data provided by supervision authorities will be used, presented in tables and graphs to give a clearer picture of the matter. Analysis will be carried out for both life and non-life insurance companies, concentrating more on premiums and claims paid by each of the insurance companies.

Keywords: *Insurance Companies, Albanian, Premiums/ Claims paid*

1. Introduction

The development of financial system plays an important role for the development of the economy of any country. Its stability should be a priority for the government when setting its economic policies. Financial intermediaries are the most important participants in the financial system. Despite limited role in the Albanian financial system, some important intermediaries are the insurance companies. The level of financial intermediary in Albania, calculated as the ratio of the assets of financial system to the GDP was 93.9% as at end of 2012, where banking system remains the key player, while the insurance companies have remained slightly constant, as shown on the table below.

Table 1: The share of segments of financial system to the GDP through years (in %)

Financial system	2007	2008	2009	2010	2011	2012
Banking system	75.9	76.7	77.5	80.9	84.7	87.9
Insurance companies	1.4	1.4	1.5	1.4	1.5	1.5
Others	2.1	2.4	3.01	3.51	3.21	4.5

Source: Bank of Albania, Financial Supervision Authority

Nowadays, the concept of insurance has developed in extraordinary way. Insurance companies have spread their activities worldwide and invented new products. Even in Albania are currently offered different types of insurance such as: fire and earthquake, equipment, CASO, Goods in transit, Sickness, Marriage – birth insurance etc.

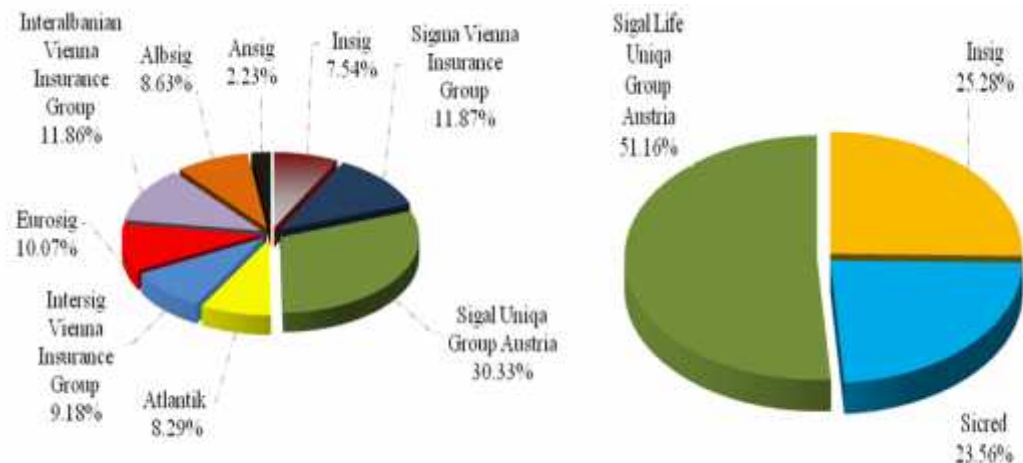
The insurance in Albania has existed since years 1900 but it is year 1991 that marks the creation of the first Albanian insurance company "INSIG". In year 1999, two new companies Sigma and Sigal were licensed, contributing to a stronger competition and better service to customers. More companies entered into the insurance market offering different types of insurance.

Today Albanian insurance market faces different problems and challenges. Competition in this market keeps growing, but problems still exist. In this paper we will talk not only about the current situation of the insurance market but also for the problems and challenges of this market.

Current situation in Albanian insurance market

Insurance market in Albania is divided between life and non-life insurance companies. Three companies operate in life insurance and nine companies in non-life insurance.

Figure 1. Market share of non-life companies **Figure 2.** Market share of life companies



Source: AMF, Insurance report 2012

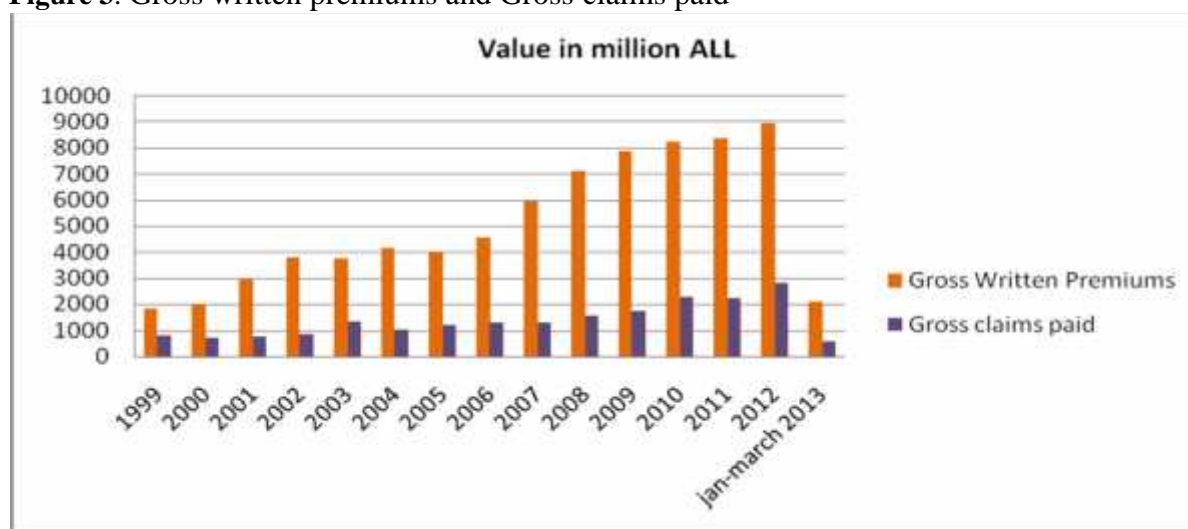
According to financial data published by the AMF, during year 2012 the insurance market experienced an increase by 7.38 % compared to year 2011. Gross insurance premiums amounted to 8,951,050 thousand ALL, increasing by 615,147 thousand ALL. The number of insurance policies reached 1,057,821 decreasing by 19 % compared to year 2011. Meanwhile Gross insurance premiums in Non-Life insurance business reached the value of 8,042,473 thousand ALL, an increase of 10.90 % compared to year 2011. The number of Non-Life insurance policies reached 971,462 which is 19.61 % less than year 2011.

Table 2: Gross written premiums and Gross claims paid

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	jan-march 2013
	Value (in millions ALL)														
Gross Written Premiums	1847	2018	2967	3802	3755	4151	4011	4542	5949	7076	7877	8207	8336	8950	2085
Life Insurance	4	9	175	285	86	114	239	302	410	515	721	849	1066	880	248
Non Life Insurance	1843	2009	2792	3517	3669	4037	3772	4201	5517	6530	7084	7303	7252	8042	1827
Reinsurance accepted	-	-	-	-	-	-	-	39	22	31	72	55	18	28	10
Gross claims paid	783	710	737	866	1320	1038	1227	1287	1294	1571	1733	2292	2211	2823	593
Life Insurance	0	0	1	13	34	7	15	12	44	45	79	72	116	158	14
Non Life Insurance	783	710	736	853	1286	1031	1212	1275	1250	1526	1654	2220	2095	2665	579

Source: AMF, Statistical bulletins

Figure 3. Gross written premiums and Gross claims paid



Gross insurance premiums in Life insurance business reached the value of 880,304 thousand ALL, a decrease of 17.38 % from year 2011. The number of Life insurance policies decreased as well by 11.44 % reaching 86,355. Decrease in life insurance is closely linked with decreasing levels of lending especially in year 2011 and 2012.

Table 3: Structure in percentage of Gross written premiums and Gross claims paid

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Structure in %															
Gross Written Premiums															
Life Insurance	0.22	0.42	5.90	7.49	2.29	2.75	5.95	6.65	6.88	7.28	9.15	10.34	12.78	9.83	11.90
Non Life Insurance	99.78	99.58	94.10	92.51	97.71	97.25	94.05	92.49	92.75	92.28	89.93	88.99	87.00	89.85	87.61
Reinsurance accepted	-	-	-	-	-	-	-	0.86	0.37	0.44	0.91	0.67	0.22	0.32	0.49
Gross claims paid															
Life Insurance	0.05	0.04	0.07	1.47	2.55	0.67	1.23	0.9	3.4	2.87	4.56	3.14	5.25	5.61	2.43
Non Life Insurance	99.95	100	99.9	98.5	97.45	99.3	98.8	99.1	96.6	97.13	95.4	96.9	94.75	94.4	97.57

The structure of the insurance market in Albania is composed by two main types of activities. The first type is compulsory insurance and the second type is voluntary insurance. Compulsory insurance is more related to motor insurance.

Table 4 . Structure in percentage of compulsory and voluntary insurance

Structure	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Jan-March 2013

Compulsory insurance (in %)	78.7	76.2	69.4	70.3	76.31	71.5	64.2	65.44	65.02	56.45	53.2	57.7	51.4	56.9	56.08
Voluntary insurance (in %)	21.3	23.9	30.6	29.7	23.69	28.5	35.8	34.56	34.98	43.55	46.8	42.4	48.6	43.1	43.92
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: AMF, statistical Bulletins

According to data published by AMF, the compulsory insurance continues to have a larger share compared to voluntary insurance. Although voluntary insurance has shown improvements especially after year 2004. The liberalization of the movement in the European Union for the Albanian citizens has positively contributed to the increase of voluntary insurance.

The insurance activity has to be considered both ways: by the premiums collected and claims paid. During 2012, claims paid were 2,823,440 thousand ALL, or an increase by 27.68 % more than year 2011. There was an increase in the number of claims by 5,451 which reached the number of 22,379 for the analyzed period, from which 21,558 is the number of claims paid by Non-Life insurers and 821 by Life insurers. However, claims were paid only at 28% of the total revenues, which is very low compared to 60% - 80% that is applied in other countries.

It must be noted that the insurance market in Albania is mostly owned by foreign capital. This is an indicator that the market is stable and has great potential in the future.

Some main investors are: UNIQA Group Austria and The Albanian – American Enterprise Fund which own respectively 68.64% and 13.3% of the capital of Sigal Uniq. Also, Vienna Insurance Group which owns 87% of capital of “Sigma Vienna Insurance Group” and 75% + 1 share in “Interalbanian” insurance company.

However, it is worth mentioning that the privatization of state –owned insurance company INSIG is still not realized, indicating some deficiencies in the running of the company.

Problems and challenges of the insurance market in Albania

The insurance market in Albania has its own problems. The more important problems worth mentioning are:

There is a lack of insurance culture among businesses and individuals. This may be due to lack of education, information and also the low level of income. Spending for insurance is considered a not worthy expense.

Government does not play an active role in informing, educating, and making people understand the value of insurance against any possible risk.

Low ratio of claims paid to premiums collected is another big problem of the insurance market. This has contributed to lesser reliability into the insurance companies.

The scheme of compulsory insurance has some problems as well. Due to the liberalization of the

insurance market, insurance companies often set different prices for the same vehicle category. This has led to unfair competition. As the premiums tend to be lower than they should be, this causes a decline in claims paid, either in lower value or not being paid at all.

Despite the problems, the insurance market in Albania has potentials for growth and development.

Conclusions and Recommendations

- The insurance market in Albania has grown steadily and it has potentials for further growth.
- Insurance market in Albania is a diversified market, in which operate several companies that are geographically spread in Albania. There is a strong interest of foreign companies to invest in the domestic market.
- Insurance market in Albania is a modest market focused on compulsory insurance. The volume of voluntary insurance represents the development of an insurance market, and Albania is still at low levels. The voluntary insurance contributions remain closely related to the level of lending.
- The main actors in the insurance market such as government, insurance companies should play a stronger role in educating the public about the importance of insurance.
- The supervision authority should better monitor the insurance market for a better functioning of this market.
- And finally insurance companies should act with honesty and responsibility. They should not take more insurance than they can afford to pay, and they should pay in time as requested by their customers.

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