



THE INSURANCE MARKET CHALLENGES IN ALBANIA

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Abstract

The insurance market holds the largest and most important weight in the development of the non-banking financial market in Albania. In fact, such a development of the insurance market in relation to other non-banking financial markets has been observed not only in Albania but also in most other European countries, due to the very character and dynamics of this market. Insurance in Albania has started quite late compared to other developed countries and has developed with their characteristics and history. Albanian doctrine speaks of the existence of insurance starting from the period before the Second World War, when in 1944 foreign insurance companies, mainly English, French and Italian, helped to create a good and much needed tradition for the insurance market in Albania. Initially their insurance activity was focused on the main cities of the country and included products such as: building insurance, industry, accident insurance, life insurance and natural disaster insurance. From 1948 to 1965 in Albania began to be recognized new forms of insurance such as: compulsory insurance of state-owned rented housing; compulsory passenger insurance; voluntary insurance of property, buildings and real estate; voluntary life insurance; During this period in Albania there was only the State Institute of Savings and Insurance Funds, an institute which dealt with the collection of citizens' savings, the few savings they had, and the provision of cooperatives and export-export enterprises. The purpose of this paper is to present an overview of the insurance market in Albania. A descriptive analysis describes the volume of premiums and the division of the insurance market.

Keywords: insurance market, compulsory and voluntary insurance, insurance market segmentation, Life insurance, Non Life insurance

INTRODUCTION

Insurance is an instrument of risk transfer from the individual, enterprise, or state to insurance companies. Risk transfer brings benefits, both to the individual who protects property and vulnerability from accidental risks, health, etc., to the enterprise, which preserves wealth and ensures the continuity of business, and to the state that protects the public interest, by transferring state obligations from the state to specialized institutions (Kagan, 2020). Insurance means the transfer of a potential risk, a financial loss, or material damage from the insured to the insurer, under an insurance contract. With the operation of the insurance system, losses can be predicted, financed and the risk redistributed. The insurance system enables the redistribution of the loss value through the accumulation of the advance (premium) by each participant in the system (Klein, 2005). The insured during the payment of the premium is enriched with insurance and if it suffers significant damage. Everyone is faced with uncertain events and situations which bring different risks: owners, entrepreneurs, administrators, investors, farmers, traders, travellers, workers, specialists, students, pupils, young people, and the elderly. Everyone wants to protect themselves from insecure situations, even by paying¹.

Insurance can be defined as economic institutions that reduce risk, by managing a set of objects where the total accidental loss, becomes predictable within certain limits. Man in life has three expensive things: life, wealth, and responsibility. Life, in any case, is threatened by: natural disasters, work, and physiological reasons. The more modernization of life, the more we meet the conditions to organize living, and the more the sources of risk that threaten our lives increase. The importance of financial information derived from financial statements is crucial to both external and internal users for decision making (Gjoni (Karameta), Fejzaj, Mlouk, & Sila, 2021).

From an economic point of view, insurance is a function of financial intermediation through which individuals exposed to uncertainty each contribute to a common coffer, from which the projected losses incurred by participating individuals are paid (Kopcke & Randall, 1991). According to this view, individuals buy the right to be paid from the legal point of view, insurance is an agreement, policy, or insurance contract, through which one party, the policyholder, contributes called a premium, and the other party called an insurer, against which the insurer agrees that pay a certain amount of money if the covered event occurs during the duration of the policy.

During the year of transitions, Albania has undergone a series of reforms in many different areas, including accounting, in terms of adapting to new changes in the economic

¹ Law no. 9338, dated 16.12.2004 and law no. 9685, dated 26.02.2007 ". The object of this law is the establishment of general principles and rules for the Supervisors activity of insurance

environment, as well as meeting the conditions for EU integration (Cela, Gjoni, Gogo, & Fejzaj, 2021). The insurance sector in Albania, has undergone a huge transformation over the years in all aspects, especially in the area of trade liberalization, property issues, insurance product development, regulators, etc (Sherifi, 2015). The insurance market in Albania has been started to operate in the last years of centralized socialist system. It was represented by state insurance company INSIG. It was the first important segment of the financial market to develop faster once Albania entered into the free market economy model on the last decade of the past century (Bejtja, 2018). In Albania, non-bank financial markets have developed at a slow (modest) pace activity. These markets remain relatively limited concerning the banking market and with the markets of the region and offer a modest contribution to financial intermediation. The vision for 2022 is: from the breast market to the most consolidated market of the Western Balkans².

During the year 2021, the insurance market experienced an increase of 16.02% compared to the year 2020 and 13.86% compared to the year 2018. The volume of gross written premiums has increased reaching the figure of ALL 19,267,798 thousand. The number of policies has increased by 22.7 % compared to the year 2020. The volume of gross written premiums in the Non-Life insurance business was ALL 17,810,270 thousand, an increase of 15.4% compared to the year 2020 and 13.75% compared to the year 2018. The volume of gross insurance premiums in the Life insurance business was ALL 1,430,262 thousand, an increase of 22.74% compared to the year 2020 and 26.23% compared to the year 2018. The number of policies was 1,173,520, an increase of 22.7 % compared to the year 2020³.

THE LEGAL BASIS OF THE INSURANCE BUSINESS

Insurance is an economic activity that helps to reduce the risks of a loss. At the heart of insurance is a contract, otherwise called the insurance policy, between the insurers who undertakes to indemnify the insured in cases of damage from an accidental loss, within a period for which the parties have previously agreed. Insurance is very good protection and assistance mechanism for individuals and businesses that become part of it, and for this reason, its legal regulation takes on the very special importance of treatment. The insurance industry has been undergoing dramatic changes during the last ten years. This industry can help the business companies and other entities on having economic and financial support, mitigating their risks and losses as well from natural disasters or other uncertainties (Bejtja, 2018). The insurance business is based on scientific principles, some of which have been taken into account, and some not when applying them. There are some basic principles and elements common to all

² Financial Supervisory Authority, Strategy 2018-2022

³ Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

types and classes of insurance. These principles are grouped into three categories, which include: Insurance economic principles; Actuarial principles; Legal principals⁴. The economic principle is based on the principle of sharing risks and losses. Actuarial principles stipulate that the premium must be calculated on a scientific basis. The legal principles include a set of rules according to which the insurance mechanism should work, such as the principle of good faith (maximum trust), the principle of reparation (the principle of compensation for loss), the principle of insurable interest, the risk should damage, loss mitigation, replacement principle, etc(Mishra & Mishra, 2008), (Kunreuther & Pauly, 2015).

The insurance business has as its product insurance against the risks of the occurrence of unexpected events for an individual or firm that bears damage or loss with different characters. Insurance legislation in Albania consists of a set of laws, agreements, and bylaws in this field. This legislation has always been improving according to the standards and directives of the European Union, a fact that is materialized in almost all documents of the Financial Supervisory Authority, but despite this, the insurance market still suffers from a lack of political will to develop through the adoption of favorable and accommodative policies for firms operating in it. Developing countries in general are struggling to move towards increasing domestic revenues for development (Fejzaj & Gjoni, 2021). According to the World Bank, Albania is one of the countries with the highest informality in the region. The number of contributors and revenues from the private sector has increased and this is due the fight against informality that the government announced in 2015 (Fortuzi, Fejzaj, & Gjoni, 2021). The insurance market is regulated in detail by law⁵ no. 9267, dated 29.7.2004 “On the activity of insurance, reinsurance and mediation in insurance and reinsurance, amended by⁶ law no. 9338, dated 16.12.2004 and law no. 9685, dated 26.02.2007”. The object of this law is the establishment of general principles and rules for the activity of insurance and reinsurance, mediation in insurance and reinsurance, and the state supervision of the entities that undertake to exercise the activities provided in this law. An important part of the insurance market is the regulation of compulsory insurance, which by "compulsory insurance" will mean insurance for which there is a legal obligation and therefore since the law extends its effects to all entities. Equally and throughout the territory of the Republic of Albania, consequently the number of entities included in this

⁴ IAIS (2019), Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups

⁵Law no. 9267, dated 29.7.2004 “On the activity of insurance, reinsurance and mediation in insurance and reinsurance, amended

⁶Law no. 9338, dated 16.12.2004 and law no. 9685, dated 26.02.2007 ”. The object of this law is the establishment of general principles and rules for the (International Association of Insurance Supervisors)activity of insurance

insurance will be greater, thus directly affecting the development and expansion of this market. The compulsory insurance market holds the largest share in the insurance market as a whole and this requires the intervention of the public operator more and more to give a boost to its development. In the Albanian insurance legislation, there is some compulsory insurance and for some others, the Financial Supervision Authority has taken concrete initiatives for their legitimating.

INSURANCE MARKET IN ALBANIA

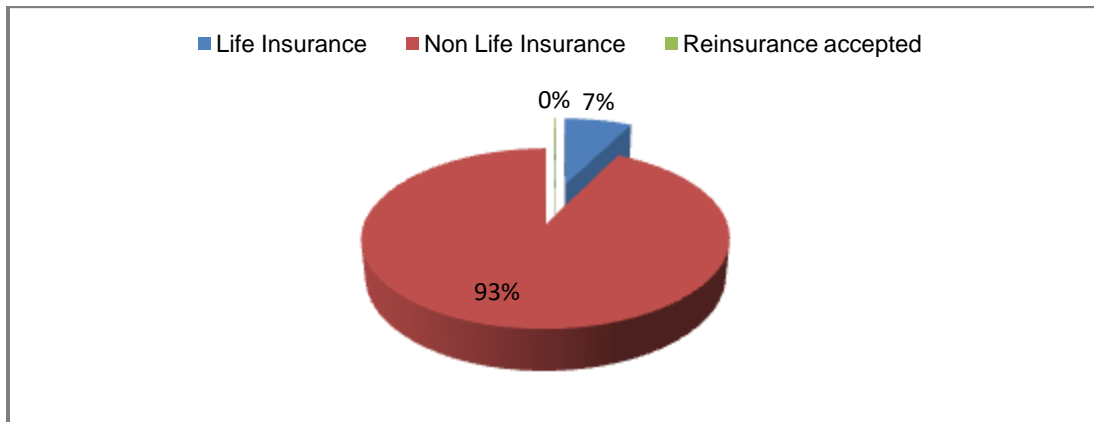
The meaning and purpose of insurance is the transfer of risk from the individual to the insurer (insurance company), a risk which is located in our district, through the signing of the insurance contract. In this way, the individual seeks protection from adversity (danger), which can endanger his life or cause property damage. Common features of all risks are that they occur in the future, are unpredictable, and do not depend on our desire. Many people buy [insurance](#) to gain security and peace of mind. Comprehensive insurance policies can protect our assets, our health, and our loved ones. Insurance contracts function by shifting the risks you face every day to your insurance company. Read on to learn more about this transfer of risk⁷. 'Risk' can be used both to describe the threat posed by uncertainty and the response to such threats. The approach to risk grounded in cognitive rationality involves collecting and analyzing knowledge and using it as part of a formal decision-making process (Alaszewski & Coxon, 2009).

The insurance market is a very important part of the financial system. It mainly includes private and state companies, which carry out the insurance process for individuals or businesses. A chance for improving Albania's development is the high activity of its residents and enterprise activity (Kozak & Muça 2021). The financial performance of a business reflects the results of its core activities in relation to the market and competitors (Gjoni (Karameta), Çela, Mlouk, & Marku, 2022).The insurance market in Albania dates back to 1991, the year when the first insurance company, "INSIG" JSC was established. In 1999, the market was liberalized and considered with development potential. Foreign investors such as Vienna Insurance Group, Uniqa Group Austria, or the American Enterprise Development Fund approached this market. Currently operating 8 Non-Life insurance companies (INSIG, SIGMA INTERALBANIAN Vienna Insurance Group, SIGAL Uniqa Group Austria, Atlantik, INTERSIG Vienna Insurance Group, ALBSIG, EUROSIG, ANSIG) 4 Life insurance companies (INSIG,

⁷ <https://www.findlaw.com/consumer/insurance/insurance-and-the-transfer-of-risk.html>

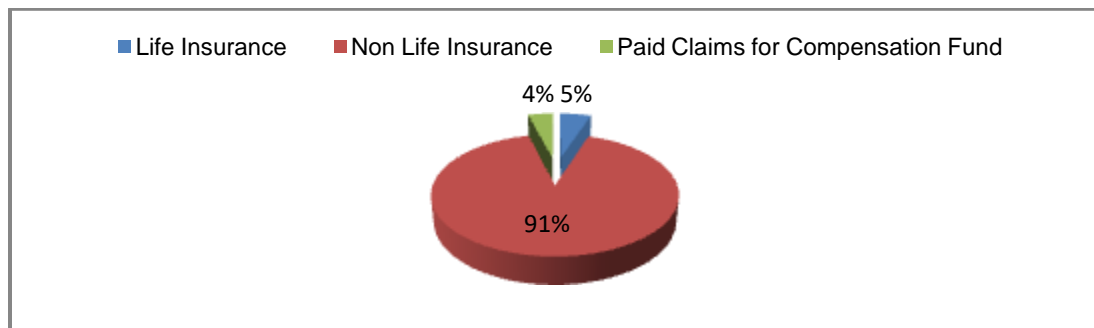
SIGAL-LIFE, SiCRED, ALBSIG JETE)⁸. In structure, the market continues to remain oriented toward Non-Life insurance, with about 92.44% of the total volume of gross written premiums in this market. While Life insurance occupies about 7.42% of the total volume of gross written premiums (Graph 1). Paid Claims for Non-Life insurance are about 91% of the total volume of Gross Paid Claims (Graph 2.)⁹.

Graph 1. Gross Written Premiums



Source: Financial Supervisory Authority, Statistics, Insurance Market, the Year 2021

Graph 2. Gross Paid Claims



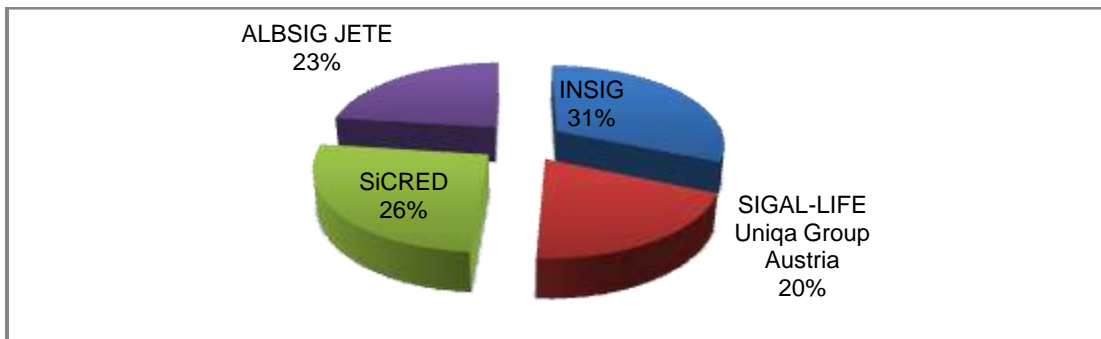
Source: Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

The companies have private capital. The subscribed capital (in thousand ALL) for Life Insurance Companies is: INSIG 31%, SIGAL-LIFE Uniqa Group Austria 20%, SiCRED 26% and ALBSIG JETE 23% (Graph 3). The company SIGAL LIFE Uniqa Group Austria has 100% foreign capital.

⁸ Quarterly Bulletin, Insurance Market III/2021, Part A: Information on Insurance Companies, https://amf.gov.al/statistika_3mujor.asp?id=1&s=2

⁹ Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

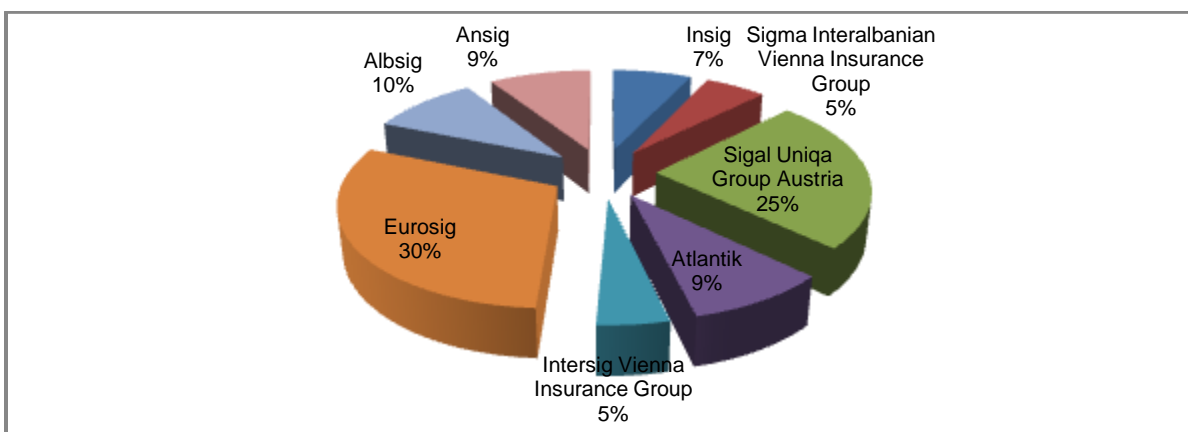
Graph 3. Subscribed Capital for Life Insurance Companies



Source: Quarterly Bulletin, Insurance Market III/2021, Part A: Information on Insurance Companies

The subscribed capital (in thousand ALL) for Non-Life Insurance Companies is INSIG 7%, SIGAL Uniqa Group Austria 25%, Sigma Interalbaniian Vienna Insurance 5%, Atlantik 9%, Intersig Vienna Insurance Group, 5%, Eurosig 30%, Albsig 10% and Ansig 9% (Graph 4). From these Intersig Vienna Insurance Group, SIGAL Uniqa Group Austria and Sigma Interalbaniian Vienna Insurance have 100% foreign capital.

Graph 4. Subscribed Capital for Non-Life Insurance Companies



Source: Quarterly Bulletin, Insurance Market III/2021, Part A: Information on Insurance Companies

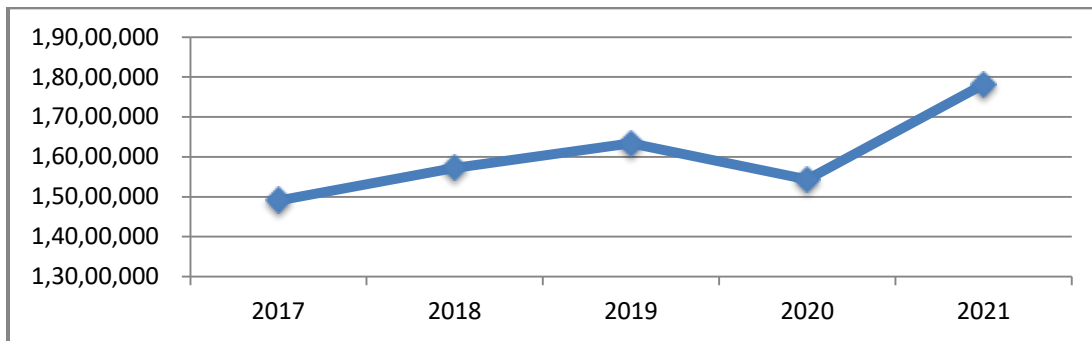
METHOD

The method used for this article is focused on the secondary data sources analyse retrieved from public institutions in Albania. Secondary data analysis is important not only to the methodological aspects but as well gives us the opportunity to better evaluate the country situation (Smith, 2008). The Research directed us towards the main indicators of analyze which affected the Insurance market segmentation in Albania and which is the future trend of this sector.

INSURANCE MARKET SEGMENTATION IN ALBANIA

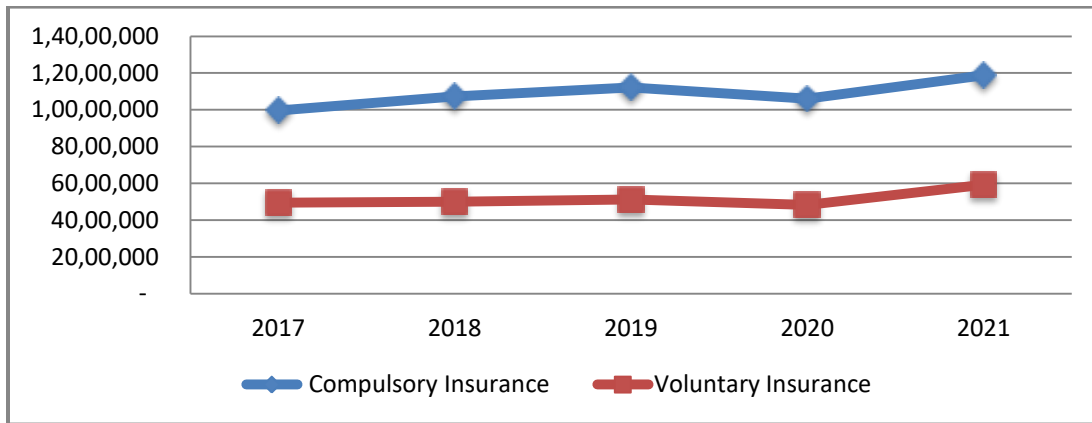
The insurance market is divided into two major groups which are: Compulsory insurance and Voluntary insurance. In practice, the vast majority of compulsory insurance is partially compulsory, where compulsory insurance provides only partial coverage, and it allows for supplemental voluntary purchases (mixed insurance) (Zhang & Palma, 2018). In Albania, during the last 5 years, there is an increasing trend in the total value of Compulsory and voluntary insurance with an increase for 2021 by about 9% compared to 2019 and by 19.5% compared to 2017 (Graph 5). Analytically, market share: Compulsory and Voluntary Insurance reflected in Graph 6. Compulsory insurance of Non-Life premiums, during the year 2021 reached the value of 11.878.224 (in thousand ALL), 5.84% more than 2019 and 19.22% more than 2017. Voluntary insurance of Non-Life premiums, during the year 2021 reached the value of 5.932.046 (in thousand ALL) 19.97% more than in 2019 and 19.95% more than in 2017 (Graph 6).

Graph 5. Total compulsory and voluntary insurance



Source: Authors 2022

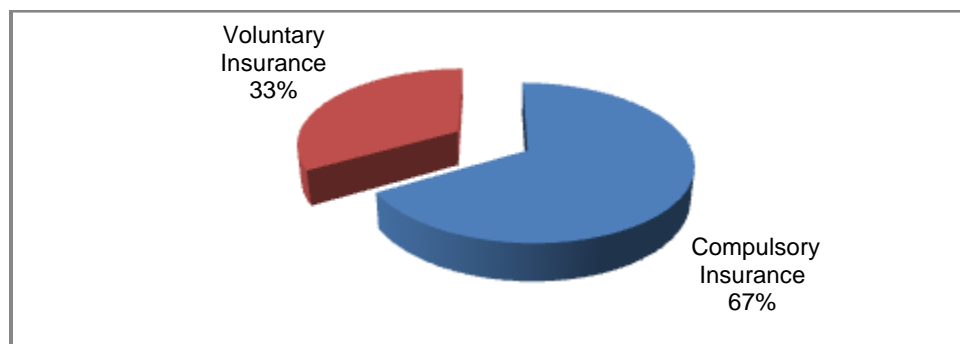
Graph 6. Compulsory and voluntary insurance



Source: Authors 2022

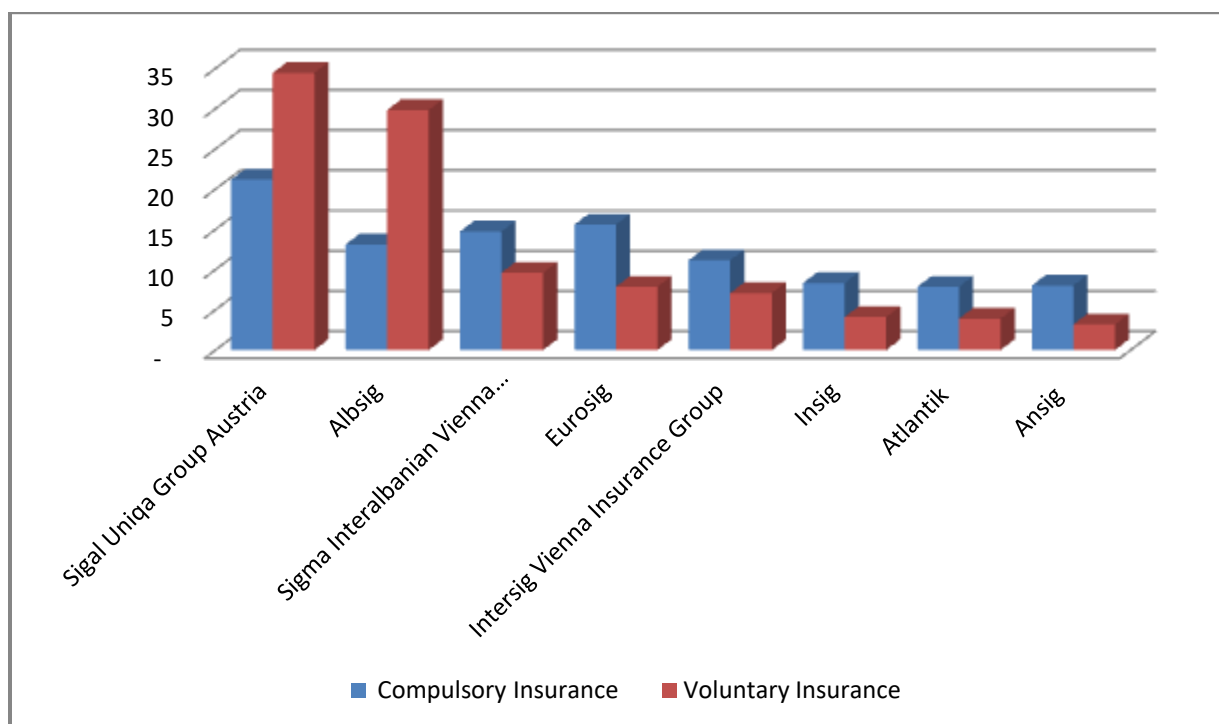
According to the Financial Supervisory Authority, 33% of the Insurance Market in Albania is voluntary and 67% compulsory (Graph 7), while the division of this market according to Non-Life insurance companies expressed in percentage is reflected in the Graph 8¹⁰. Sigal Uniq group Austria has the highest percentage in voluntary and compulsory insurance.

Graph 7. Compulsory and voluntary insurance



Source: Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

Graph 8. Market share in Compulsory and Voluntary Non-Life Insurance



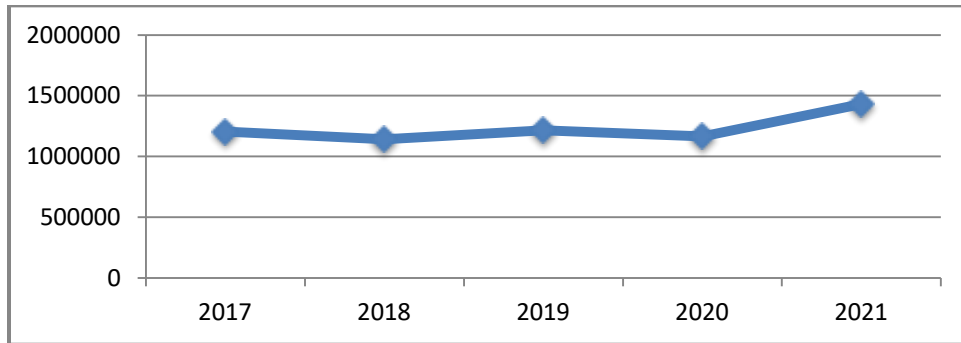
Source: Authors 2022

¹⁰ Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

According to the data of the Financial Supervision Authority, Gross Written Premiums from Life Insurance Companies for 2021 reached the total amount of 1430.262 (in thous. ALL). This value has an increase of 17.64% compared to 2019 and an increase of 18.77% compared to 2017.

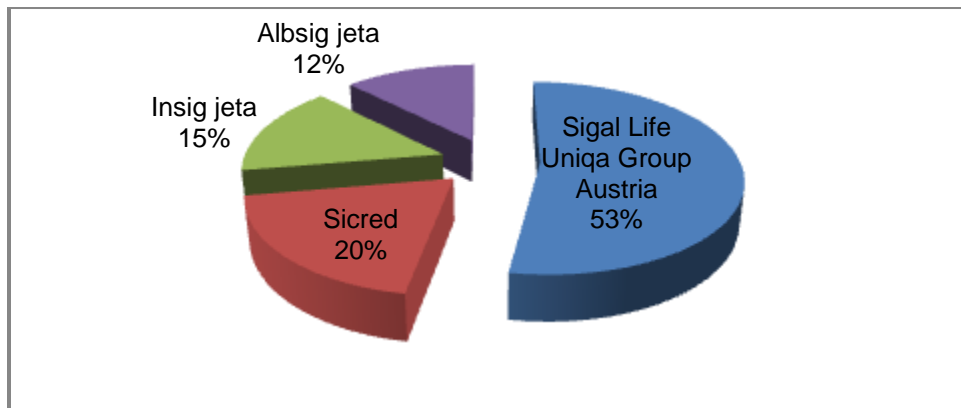
Market share - Life insurance for insurance companies for the year 2021 is reflected in the chart below (Graph 9). The highest market share is held by the company Sigal Life Uniqa Group Austria with 53% (Graph 10).

Graph 9. Gross Written Premiums from Life Insurance Companies



Source: Authors 2022

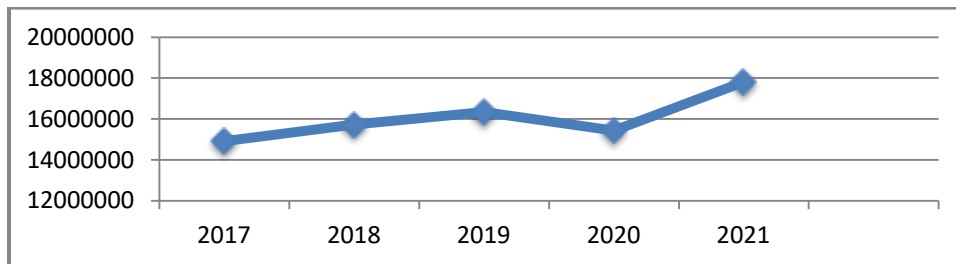
Graph 10. Market share - Life insurance



Source: Financial Supervisory Authority, Statistics, Insurance Market, the Year 2021

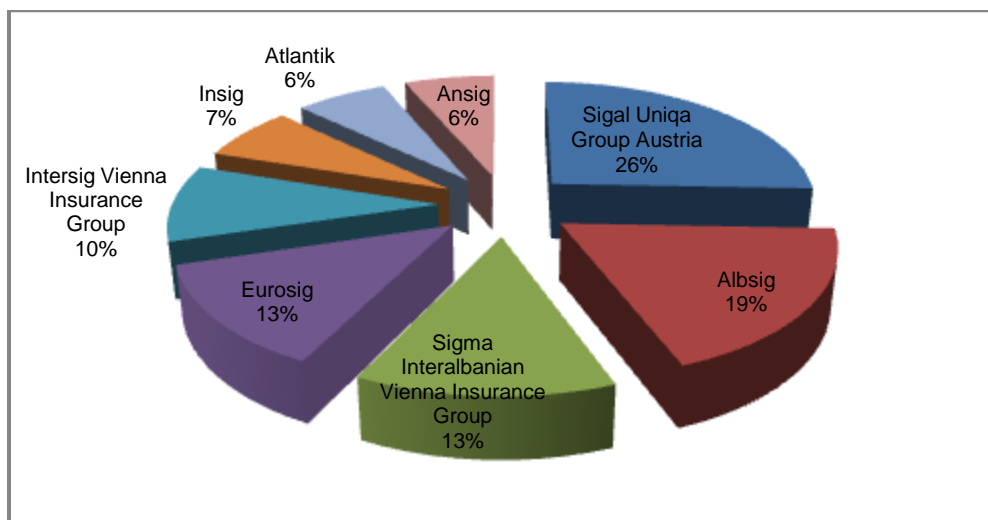
According to the data of the Financial Supervision Authority, Gross Written Premiums from Non-Life Insurance Companies for 2021 reached the total amount of 17.810.269(in thous. ALL).This value has an increase of 9.00% compared to 2019 and an increase of 19.47% compared to 2017 (Graph 11). Market share – Non-Life insurance for companies for the year 2021 is reflected in chart 12.

Graph 11. Gross Written Premiums from Non-Life Insurance Companies



Source: Authors 2022

Graph 12. Market share –Non-Life insurance companies

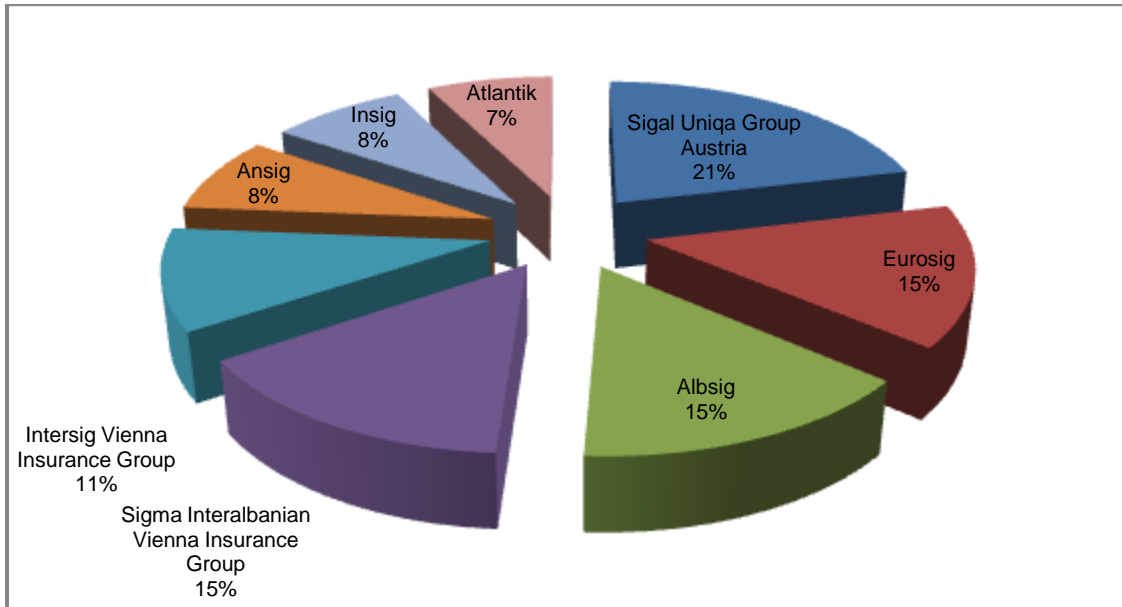


Source: Financial Supervisory Authority, Statistics, Insurance Market, the Year 2021

Non-life insurance includes all insurance services which are not included in life insurance (such as real estate insurance, health insurance, vehicle insurance, etc.). In the non-life insurance market, the largest share is occupied by motor vehicle insurance to third parties (compulsory insurance), with a premium amount paid of ALL 12.967.160 during the year 2021. Market share in Motor Insurance for companies for the year 2021 is reflected in chart 13. The second most important item is the insurance against fire and natural forces with a premium amount of ALL 2.049.149¹¹. Market share in Fire and Natural Forces and other Damage and Loss in Property for companies for the year 2021 is reflected in chart 14. The third important item is an accident and sickness insurance. Market share in accidents and sickness insurance for companies for the year 2021 is reflected in chart 15.

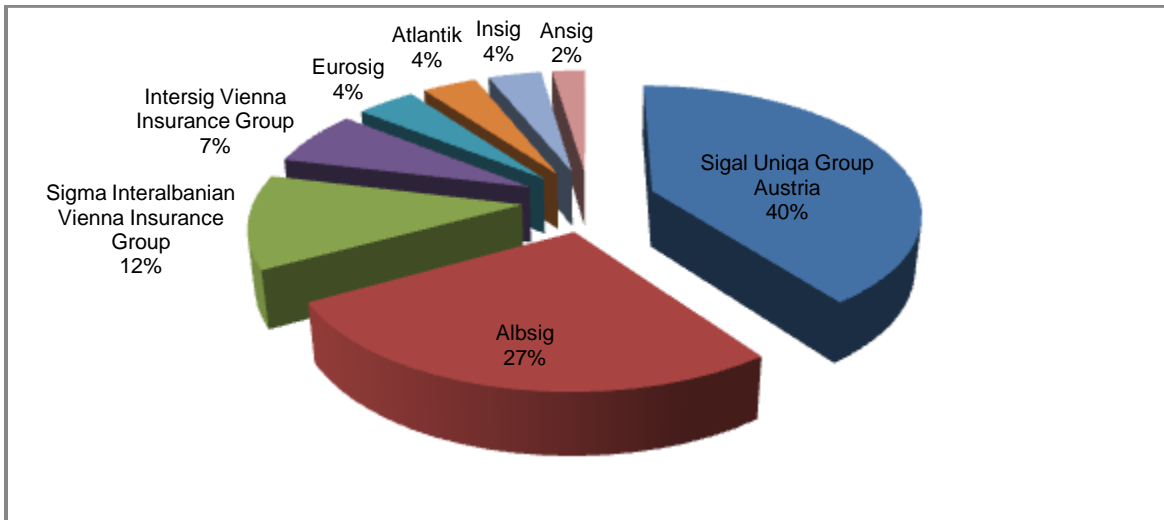
¹¹Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

Graph 13. Market share –Motor Insurance



Source: Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

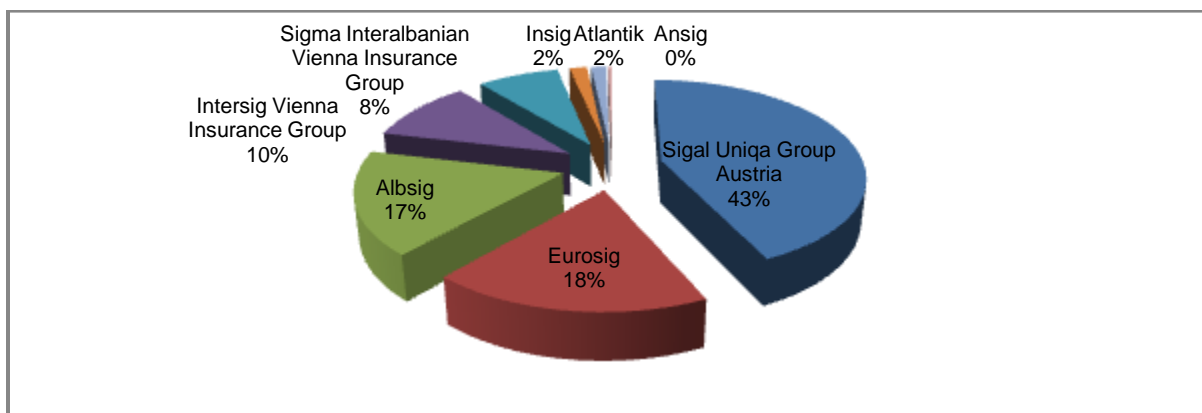
Graph 14. Market share –Fire and Natural Forces and other Damage and Loss in Property



Source: Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

The market share of Fire and Natural Forces and other Damage and Loss in Property is dominated from Sigal Uniqa group in Austria, but in total compared with other types of insurance still remain low in Albania. Even we had passed difficult situations related with the earthquake of the year 2019 it is the lack of culture that opposes the low levels of the insurance

Graph 15. Market share- Accidents and Sickness Insurance



Source: Financial Supervisory Authority, Statistics, Insurance Market, Year 2021

DISCUSSIONS

According to the Financial Supervision Authority, the growth of the insurance market can be achieved only if the credibility of the consumer is increased in parallel. The main challenges are related to promoting consumer credibility through market stabilization, its further development, as it is valued among the least developed markets in the region and improving the quality of supervision and regulation of this market. AFSA aims to promote the development of a financially sound insurance market, which fulfills its obligations to consumers. Among the measures envisaged are the strengthening of the applicability of compulsory insurance products, the promotion of a competitive and efficient market, as well as the creation of facilities for the development of new products and their distribution. The purpose for further studies is the analysis of the Aggregated Efficiency Ratios of Insurance Companies. This analysis will give a clearer overview of the functioning of the insurance market in Albania.

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