

Insurance Companies Problems and challenges of this potential market in Albania

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Abstract-Parts of financial intermediaries are also insurance companies. In Albania, the numbers of insurance companies are increasing year by year. So did the number of services and products they offer. At the same time even the competitive environment has changed, becoming more aggressive. In this way the problems and challenges for the insurance companies has been increased. The problems for the insurance companies have been increased even more after the global financial crisis as the financial crisis effects are felt either in Albania. For this reason I have decided to treat in this paper the insurance companies, the problems and challenges facing this market. At the beginning of this paper I will present the current situation in the insurance companies market. I will show the progress of this market in years. Also I will show how the current economic indicators of this market are. Further I will make a presentation of the problems and challenges that are facing this potential market. It will also try to draw some conclusions and give some recommendations. In this paper are used more narrative and analytical methods. Tables and graphs accompanied by relevant comments will be able to give a clear picture of what I want to show.

Keywords: Insurance, Companies, Albanian, Financial, Market, crisis

Introduction

Financial intermediary are very important for one economy of one country. Stability and their development should be top priority in political economic policy. Countries with developed financial intermediary have stable economy welfare. Among other components of financial intermediaries may also mention the insurance companies. Insurance companies operate in the insurance market. Insurance market in Albania is moving towards stability. This does not mean that problems and challenges in this market are low; rather unfortunately they continue to be numerous.

Concept of insurance companies is too old. This concept was born centuries ago. Often happen that the invading isolate different peoples in their castles and not allowed to go to the crops. In this way within the castle caused an acute lack of food. Not only for this reason, but also natural disasters or catastrophes caused the population to gather food on their own, initially, and later jointly. This way come the common stocks of cities that opened in cases of war or siege and save people from starvation. (*Bundo Sherif*)

This notion emerged the creation of mutual funds to pass with less difficulty and damage cases. But first the concept of insurance was born in England.

Today, after many centuries the concept of the insurance has evolved in an amazing way. Insurance companies are increasing their activity in the whole world and the products they offer are varied. The insurance companies today offer different products. Besides basic security like fire or earthquake, the insurance companies offer life insurance, insurance for various equipment, professional insurance, etc.

In Albania have existed primitive notions for insurance since 1900, but this phenomenon was institutionalized in 1991 with the creation of the first Albanian insurance company "INSIG". Later the numbers of these companies were increased and now we have a lot of them in the Albanian insurance market. These companies compete with each other in quality of services and products prices. As for products that offer these companies we can mention that are the same, or better, small differences.

Today Albanian insurance market faces different problems and challenges. Competition in this market comes always growing, and this improves the situation but we cannot say that there are no problems. 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

The insurance market in Albania is a potential market. Today in insurance market in Albania operate 8 "Non-Life" insurance companies and 3 "Life" insurance companies. INSIG and Sigal are two companies that provide insurance services in the field of "Life" as well as "Non - Life" Insurance. The insurance market during recent years including 2010 has been increased significantly. Likewise, until September 2011, according to statistical data of the *Financial Supervisory Authority*, the insurance market has increased to a value of approximately 4.73%. If we make a monetary presentation of the current situation we would say that the gross premiums have been increase by 295.567 thousand ALL, reaching the figure of 6,538,457 thousand ALL.

If we make a partition for display purposes into two groups "Non-Life" and "Life" we will say that:

Gross premiums for Non-Life activities (by September 2011) reaches a figure of 5,722,409 thousand ALL, or otherwise we can say that they have been increase by 1.97% compared to the same period a year ago. Furthermore gross premiums for Life activities until September 2011 were 798,939 thousand ALL. This represent an increase by about 36% compared to the same period a year ago. (AMF)

The structure of the insurance market in our country is composed by two main types of activities. The first type is obligate insurances and the second type is voluntary insurance. Obligate insurance are more related to motor insurance. These types of insurance (obligation insurance) have high specific weight compared to voluntary insurance. Based on Financial Supervisory Authority, motor obligate insurances for the year 2010 brought nearly 52% of all gross premiums. This represents an increase by about 7.2% more than in 2009. On the other hand voluntary insurances have been increasing with about 7% compare it with year 2009. This increase includes both life insurances and non-life insurances. The liberalization of the movement in the European Union for the Albanian citizen has increase the life insurance.

Also we should mention that life insurance is fairly related to lending activity. Borrowers are required to carry life insurance. According to AMF, this type of insurance has been increasing approximately 18% compared to 2009. Insurance activity cannot be understood or divided by the process of claims paid. Statistical data on the AMF's annual report show that: "In 2010, insurance companies the claims paid was about 2.29 billion ALL, or about 32.26% more than in 2009, while the increase of gross written premium was 4.18% compared with a year before. Motor insurance type have taken the biggest part of claims paid (1.45 billion ALL or 63.29% of total)". As we mentioned at the beginning of the paper, insurance market in Albania is composed by several insurance companies. Financial Supervisory Authority has made a ranking of these companies. Ordering starts with that company that haven higher percentage of the market and continues with downward trend. Rating of Non-Life companies is: Sigal, Sigma, Insig, Atlantic, Interlbanian, Albsig, Intersig and Eurosig. While the Life companies have a order like this: Sigal-Life, Insig and Sicred.

The insurance market does not include only the insurance companies but also the insurance agents and brokers. Insurance agents and brokers before starting their activities in insurance market must obtain a license issued by the AMF. Based on AMF's annual report for 2010 we could say that the priority was given to these directions:

- Licensing of entities operating in the insurance market as intermediaries: brokers and agents, and evaluation insurance claims;
- Approvals of the qualifying foreign capital, as well as statutory changes in insurance companies, related to changes in capital, shareholding structure, or different sections of the statute.
- Approvals of governing bodies of insurance companies.

If we make a partition of the agents and brokers we will have:

Broker

Brokers for the first time entered into the insurance market in 2008. Only during 2010 the number of brokers in the insurance market was increase by 4 brokers' entities. So in total the numbers of brokers' entities is 8. Furthermore this market has 10 individual brokers. These show the interest for the insurance market as a potential market.

Insurance Agents

Insurance agents' activity is very worthwhile these days. To start up such activity does not require a lot of costs. A bank guarantee, a normal office and a test performed to obtain a license is all that a agent should attend to start up a business like this. Many people today are operating as an agent for various insurance companies. According to the AMF's annual report may say that in 2010, was licensed by the AMF 10 agents on behalf of the insurance company "Insig", of which only 2 licensed for the first time and 8 agents renewed their license.

The present of the foreign capital in the insurance market is one of the other factors indicating that this market is stable and is growing year after year. In recent years there has been an interest by foreign companies to invest in the insurance market in Albania. Here we can mention the case of INSIG, which still continues to require capital to be privatized. AMF approved during November 2010 the presence of shareholder "Staditsche Wiener Versicherung AG Vienna Insurance Group" at 75% + 1 share in "Interlbanian" insurance company. Also we can mention the case of Vienna Insurance Group, which owns 87% + 1 of "Sigma Vienna Insurance Group" company. Furthermore, "Zavarovalnica Triglav", Slovenian insurance company, has arranged an agreement for buying 9.9% of the Albsig's capital. Below are present in graphic form and tabular form the present situation of the Albanian insurance market.

Table 1. Gross premiums and gross paid claims for 2010 - 2011.

Aggregation type	Value (in thous.leks)		Change (in %)	Share in total value (in %)	
	2010	2011		2010	2011
January-September			11/10-1		
Gross Written Premiums					
Life Insurance	587182	798930	36.06	9.41	12.22
Non Life Insurance	5611616	5722409	1.97	89.89	87.52
Reinsurance accepted	44093	17117	(61.18)	0.71	0.26
TOTAL	6242890	6538457	4.73	100	100
Gross Paid Claims					
Life Insurance	43342	43890	1.26	2.79	2.74
Non Life Insurance	1511605	1558702	3.12	97.21	97.26
Reinsurance accepted	120	-	(100.00)	0.01	-
TOTAL		1602592	3.06	100-00	100-00

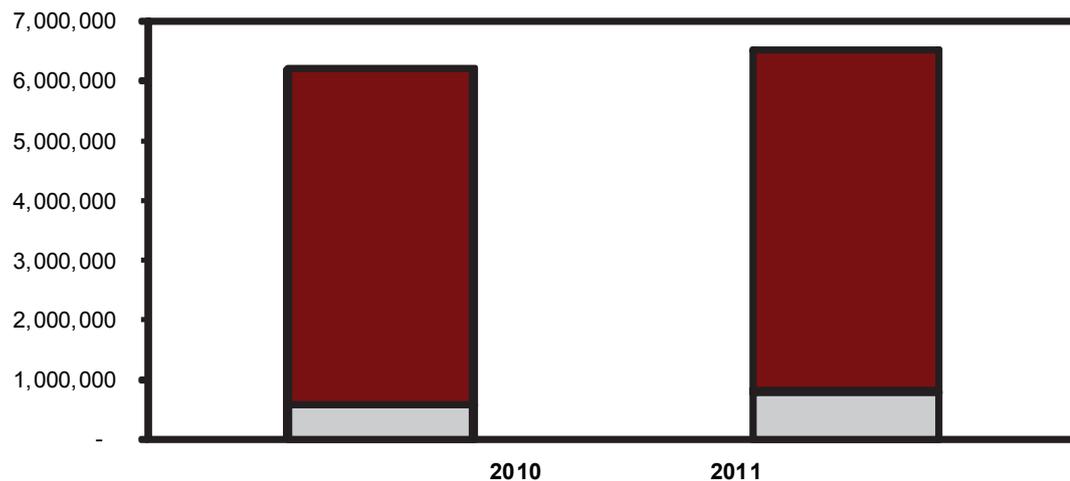
Source: Financial Supervisory Authority. Data for the period January - September

²Financial Supervisory Authority. Data for the period January - September 2011.

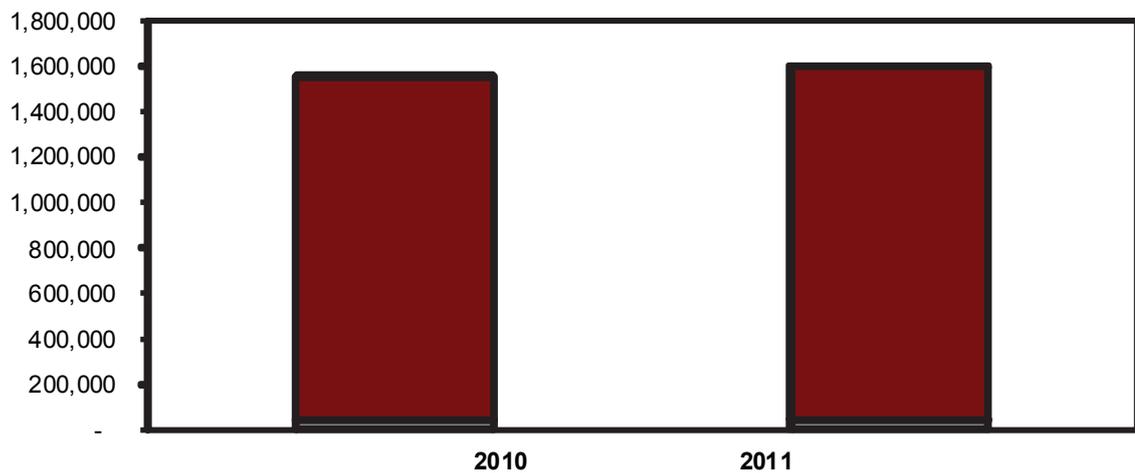
³Financial Supervisory Authority. Data for the period January - September 2011

⁴Financial Supervisory Authority. Data for the period January - September 2011

⁵Financial Supervisory Authority. Annual Report 2010.

Graph 1. Gross Premiums for period 2010 -2011.

Aktiviteti i Jo- Jetës / Non Life Insurance
 Aktiviteti i Jetës / Life Insurance
 Source: Financial Supervisory Authority. Data for the period January - September 2011

Graph 2. Gross Claims for period 2010 - 2011.

Aktiviteti i Jo- Jetës / Non Life Insurance
 Aktiviteti i Jetës / Life Insurance
 Source: Financial Supervisory Authority. Data for the period January - September 2011

From the graphs it is obvious that gross premiums and paid claims were higher during 2011 compared with 2010.

Problems and challenges of the insurance market in Albania

The insurance market is one of the markets in Albania that has different problems. In this part of paper I will handle some of these problems, the most important ones.

Culture of insurance is one of the main problems of the insurance market. In general, countries that came from totalitarian regimes have a lack of insurance culture. This is because in totalitarian regime in cases of claims people have the state support. In that kind of regime people see the state as the only solution for every problem.

Not having insurance culture means that the insurance companies have to sell few contracts and gross premiums collected by them to be much lower. This led to a lack of

capital and liquidity for them and as a result the paid claims are lower. One of the cities which have a high level of voluntary insurance is Shkodra. Although a city with a relatively low economic level Shkodra's citizens perform voluntary insurance (fire and earthquake). This after the city of Shkodra has passed earthquakes and fires that have been devastating. So the residents of this city now are more sensitive in this direction.

Besides insurance companies, belongs to state institutions to encourage the population to do insurance. Insurance culture should be part of learning cycles so that people understand their real significance. People need to understand how valuable insurance contract and how they are helpful in case of damages.

Not payment of the claim by the insurance companies is another important problem of the insurance market. This phenomenon got the reliability in this market not in satisfactory levels. However in recent years insurance companies are faced forward the pressure from different state authorities and so the payments of claims are correct. Based on the AMF's 2010 annual report will say that: "Despite the increase in the absolute value of paid claims, low report of claims / premiums shows that the insurance market has still much to be done to improve customer service in general."

Mandatory insurance is part of the insurance market that has problems. This segment continues to be problematic, not well coordinated and checked by the AMF. Law No. 10076 which has to do with "Mandatory insurance in the transport sector" has changed in order to liberalize the prices of insurance companies. This has led many companies to set 3-4 prices for the same vehicle categories. This affects the fair competition of the market. Many companies change the vehicle categories, vehicles of high categories takes TPL as they are part of lower categories, thus paying a lower premium compare with what they have to pay. This can bring not payment of the claim in case of accident or damage or the claim paid may be lower than the real value of the damage.

Another problem is related with the sale of TPL contract for cars with foreign license plates. Another worrisome problem is the creation of an unauthorized sales network by insurances companies. This is not a fair competition and brings anomaly in this market. Insurance market has started to feel the global financial crisis effects. Global financial crises have a negative effect on these companies reducing their liquidity. For this reason these companies have started to increase the number of the products launched in the market. Also the staffs of these companies in general have not the necessary knowledge. These transmit negative signals to customers. INSIG is the only company which has staff with experience in insurance area because it is the first company in Albanian insurance market.

Conclusions and Recommendations

To understand better and to be clearer for what I have said until not it is necessary to do a quick summary of problems (conclusions) and to give proper recommendations. If you make a list of conclusions will have:

- The insurance market in Albania is a potential market.
- The insurance market during recent years including 2010 has been increased significantly.
- Until September 2011, according to statistical data of the Financial Supervisory Authority, the insurance market has increased to a value of approximately 4.73%.
- The insurance market is one of the markets in Albania that has different problems.
- As the main problems of this market we can mention: Insurance Culture, not payment of the claim by the insur-

ance companies, mandatory insurance are not well coordinated and checked by the AMF, changes of the vehicle categories, TPL contracts and global financial crises.

- To resolve these problems it is necessary to: collaborate all the insurance companies with each other, collaborate with the proper state authorities, implement new politics and procedures in order to improve their performance, invest in staff knowledge, invest in new products and to implement the best method in collaboration with the customers.

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