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THE CONSEQUENCE OF FINANCIAL CRISES IN ALBANIAN INSURANCE MARKET

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Key words: Insurance market, non-life insurance, compulsory insurance, penetration coefficient.

Abstract: The Albanian insurance market is not influenced considerably from current financial crisis. Early yet phase of development with the very low penetration level explains steadiness of insurance market to exposure influence of global financial crisis. Another factor contributed to stability of insurance market is focusing insurance businesses more on the compulsory insurance segment which is not fully liberalized. Conservative investment policies of Albanian insurers also contributed to avoiding influence of market risks induced by world financial crisis.

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Introduction

The insurance market in Albania is a fairly young market but is marching persuasively on its consolidation road. One of the main indicators followed insurance crisis is increase of premiums, a phenomenon which has not happened in Albania though. The year 2009 was successful for the insurance sector in Albania in terms of growth of the overall premium volume for insurers and the market as a whole. Gross written premiums reached the amount of about 7.9 billion Leks, or 11.28% more than the previous year.

Another indicator of insurance crisis is problems with claims paying ability of insurance companies. The increase in total gross claims paid was about 13.05% compared to the previous year. The major amount of paid claims belongs to motor insurance with 1.5 bln. Leks or 86.22% of the total paid claims.

Below we consider the main reasons that tend Albanian insurance market not to feel the effects of global crisis.

Albanian insurance market is a new market

Insurances in Albania are relatively a young industry though their inception date comes from 1900. Insurance market in Albania has passed through several stages.

First stage - dates on the Second World War, when all insurances activities were carried out by foreign companies (Londoner, Italian and French). Most of these companies covered insurance activities related with natural disasters in premises, industries and life, introducing for the first time the insurance concept in the Albanian life. In 1946 these foreign companies were put under privatization.

Second Stage – covers the period from 1944 to 1991. In 1948 a decree, authorized the establishment of the Government Insurance Institute. In 1954 for subjective reasons this institute was merged together with Savings Office, creating this way a single institution named Savings and Insurance Institute. These two institutions had nothing in common referring their functionality, resources and purpose. Under this circumstances, and affected by the isolation regime

with other countries, insurance in Albania passed through stagnation and suffered lack of diversification and mandatory regulation. In that time during a meeting the Ministers Council determined the obligatory insurance of government property, while for the private property, insurance was enforced by law. Objectives, risks, tariffs, premiums, regulation and other conditions related with insurances were approved by the Finance Ministry over the proposals of Savings and Insurance Institute. During this stage one cannot discuss about real insurance market in Albania. The economy was centralized, so every gathered premium was used according to a plan by the state. It was impossible for the institution to have its own investment portfolio.

Third stage - lasts from July 1991 up to now. The significant changes happened in the country have caused adequate reflections in insurance market as well. The Savings and Insurance institute was split up by law No7506 (July 31, 1991) in two different institutions: Savings Bank and Insurance Institute named also INSIG. INSIG was the first Albanian insurance company created as a commercial enterprise and acted in compliance with market economy rules.

The law No8081 (March 7, 1996) was decisive in reformation and liberalization of the country insurance system. This law terminated the monopoly position of INSIG and enabled insurance market liberalization, facilitating new companies entrance in the market. On surveillance kevel, the Albanian Financial Supervisory Authority (AFSA) acts as the legal institution authorized to evaluate companies, distribute licenses, monitor and audit the insurance and reinsurance companies.

Present insurance market is represented by 7 companies operating in nonlife insurance segment, 2 companies in the life insurance and 1 company involved into the both segments. Thus, we can state that the number of the companies acting in the country market is smaller compared with the number of the companies operating in other Balkan countries like Croatia (27 companies) and Slovenia (18 companies).

One of the most important indicators of insurance industry development in a country is the penetration coefficient as ratio

of incomes generated from insurances to GDP (Table 1). In Albania this indicator is one of the lowest compared to other Balkan countries, though its increasing trend provides

optimism: e.g. in 2007 this coefficient reached 0.58 from 0.5 in 2006.

TABLE 1. THE PENETRATION COEFFICIENT IN SELECTED COUNTRIES

Country	Albania	USA	Belgium	Italy	Croatia	Slovenia	Bulgary	Greece	Serbia	Romania	Turkey
Penetration coefficient	0.58	8.9%	9.6%	6.4%	3.3%	3.1%	2.7%	1.9%	1.8	1.8	1.7

Source: www.swissre.com

TABLE 2. THE PORTFOLIO OF ALL INSURANCE COMPANIES, MLN. LEK

Portfolio	1999		2001		2003		2005		2007	
	Premium	%	Premium	%	Premium	%	Premium	%	Premium	%
MTPL Insurance	1523	82.5	2177	73.4	2998	80	2827	70.5	3255	73
Properties insurance	263	14.2	539	18.2	544	15	802	20	783	17.6
Health insurance	57	3.09	75.1	2.53	127	3.4	144	3.58	145	3.25
Life insurance	3.72	0.2	175	5.9	86.1	2.3	239	5.95	276	6.19
Total	1847	100	2967	100	3755	100	4011	100	4459	100

Source: www.amf.gov.al

TABLE 3. PREMIUMS AND CLAIMS BY YEARS, MLN. LEK

Year	Written premiums	Paid claims	Loss ratio, %
1997	1211	559	46
1998	1537	752	49
1999	1847	783	42
2000	2017	710	35
2001	2967	736	25
2002	3803.7	858.6	23
2003	3755.1	1306.9	35
2004	4151.4	1038	25
2005	4011	1226.8	31
2006	4507.2	1374.7	31
2007	4195.2	983.7	23

Source: www.amf.gov.al

TABLE 4. TECHNICAL RESERVES OF INSURANCE COMPANIES IN ALBANIA, MLN. LEK

Company	2000	2001	2002	2003	2004	2005
Insig	2822	2891	2585.4	2224.8	1893.6	2313
Sigma	186	368	604.9	713.7	822.8	781
Sigal	176	454.5	746.6	755.2	859.3	1080
Atlantik	0	37.9	121.6	184.2	316	249
Intersig	0	7	109	209.9	191.1	150
Total	3184	3758.4	4167.5	4087.8	4082.8	4573
Reserves in % with GDP	0.577	0.637	0.633	0.54	0.523	0.48

Source: Annual Report 2005, AFSA.

The overall state of insurance market development is related with the population culture in insurances and the maturity phase of insurance companies in Albania. Government intervention is needed to promote insurance products development in construction, hydrocarbons, mines, energetic, hotelier. This process will definitely source an innovation in the insurance markets structure, enhance growth of their penetration indicators, thereby closing the gap of financial market development with other Eastern Europe countries. The first steps are done; the oil production company Alb Petrol, created with state capital stock, has included in

employment contracts also the life insurance. The same phenomenon is spreading in other state affiliated companies included in high risks activities.

Albanian insurance companies focus on compulsory insurance

Near all insurance Albanian companies focuses on non-life insurance. Only the Siced and Sigal Life companies are oriented to life insurance, Insig is company with both the activities. One can observe the predominant scale of the non-

life insurance and mandatory insurance markets during 1999-2007 (Table 2). Life insurance comprises negligible share of total insurance market. As seen from the table, mandatory motor insurance (Motor Third Party Liability - MTPL) dominates market structure; it constituted 73% of total premiums in 2007.

The tariff system for compulsory motor vehicle insurance is not fully liberalized and it is regulated by the bylaws issued by the Minister of Finance. Then, fixing MTPL prices creates problem in competition policies of private insurance companies. Thus, MTPL insurance is characterized from continuous problems regarding deviation from legislation from the part of the private companies created after insurance market liberalization in 1999. These problems arise from the fact that the premium of this type of insurance is set by law and it is impossible to change it. Mainly all private companies operate with low prices increasing this way unfairly their market share.

The orientation of the insurance companies toward non-life insurance has many reasons including the following:

- a. low level of population incomes, incomes per capita in Albania are lowest in the Balkans, unemployment reaches 30%. Life insurance is mostly seen as a luxury good;
- b. good part of non-life insurance is formed by mandatory motor insurance, generating much higher revenues;
- c. population distribution and concentration in rural districts make difficult life insurance promotions;
- d. passive or missing marketing in promoting insurance policies to markets and customers;
- e. the number of companies offering life insurance is insignificant (3 companies) compared to the number of companies offering non-life insurance (8 companies);
- f. Albanian mentality: "we don't think about death and accidents".

The orientation to compulsory insurance products prevented domestic market from increasing insurance premiums, while such increase was observed due to property insurance channel in most international insurance companies. In property insurance the main weight belongs to insurance against fire which premiums is less than 20% of total property premiums. Small share of property insurance in total non-life insurance and total insurance premiums prevented risk exposure to global financial crisis.

The portfolio of Albanian insurance companies is oriented to low and no risk investments

Analysis (Table 3) shows that loss ratio in entire insurance system of the country during 2000-2007 was decreasing from 35% to 23%. This ratio notably less than in other European countries where it fluctuates in the range 60-70%. The modest loss ratio provides good opportunities for investments, which are not exploited very often from the companies. Expenses ratio in Albanian insurance companies runs on level 66-69%, markedly exceeding the ones for other European markets. The biggest part in those expenses are the agent commissions and for other operating expenses occurring during promoting, advancing and underwriting insurance products to customers.

Increase in total volume of technical reserves of Albanian insurance companies (Table 4) contributes to the growth of portfolio capacity. Main part of portfolio investments go to deposits and treasury bonds having least risks as financial instrument. The major part of their techniques reserve Albanian insurance societies put into credits, and a small part in real estate investments. The treasury coupons occupy the higher percentage of their portfolio; treasury coupons occupy about 50% of their investments portfolio, investments in many market 35%, and investments in real estate and other only 15%.

The most aggressive investment policy is distinctive to Insig which approach the 90% investments confronting the technical capacities. The other companies, especially the new companies do not utilize many investing opportunities. The company catches around 50% of the total investments portfolio of the insurance sector in the country.

During the time passed from 2000 interest rates decreased notably. But what are the real possibilities for the insurance societies to invest their reserves? Still Albania does not have stock-market offering variety of investment opportunities. The only traded negotiable instruments traded in the Tirana Stock-market are the treasury coupons emitted from Albanian government. This situation limits investment and profit profile of insurance companies.

Conclusion

- Albanian insurance market was not affected by the crisis that gripped most insurance companies worldwide
- Orientation towards compulsory motor insurance, and small percentage of property insurance premiums, protected fragile insurance market in Albania;
- The investments portfolio of Albanian insurance companies are composed with low and no risk investments;
- Albanian legislation allows insurance companies to invest international markets a negligible part of their total investments, thus enabling the protection from global financial crisis.