

The Life Insurance Market in Albania and the Factors that Affect its Development

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Abstract: Life insurance companies play a very important role in the financial sector. Life insurance provides individuals and the economy as a whole, a lot of important financial services. This is one of the main reasons for addressing this topic. In this paper is presented an overview of the progress of the development of the life insurance market among years and recently its trend and current position is shown. There are insurance companies that offer life insurance service in our country, their products are presented to detailed. There are several factors from different fields that directly or indirectly affect promoting the development of the life insurance market. They are presented explained and shown and their progress in parallel with the life insurance market. The special feature of this paper is an econometric study, which explains the relationship that exists between the credit factor mortgage and life insurance. The role of AMF, (Financial Supervision Agency), is mentioned as quite important in the development of the insurance market. The measures taken and targeted remain an objective quite important, on which the performance of the life insurance market depends.

Keywords: Insurance, mortgage loan, life insurance

1. Introduction

Life insurance companies play a very important role in the financial sector.

First, life insurance products encourage long-term savings and reinvestment significant amounts in private and public projects. Being an financially intermediary, life insurers have become an important point of long-term financing by thus encouraging the development of the capital market. Studies have shown that the development of the sector of insurance is influenced by economic growth.

Secondly, life insurance can also serve as a substitute for social programs to the government. A study by the Organization for Economic Development and Cooperation has shown that selling a large number of life insurance policies eases the pressure on systems e social welfare of the state. Life insurance is an advantage in terms of finance public and as a result, viewed favorably by governments (Sharku 2005).

Thirdly, insurers influence the improvement of the efficiency of a country's financial system, by: reducing transaction costs, creating liquidity and leveraging the economy of investment rate.

1.1. Life Insurance Products in Albania

The life insurance market consists of three main companies:

- INSIG S.A
- SICRED S.A

- SIGAL-LIFE, UNIQA GROUP AUSTRIA SH.A

The company INSIG S.A. started its activity in 2000, while the two companies of others have started activity in this field in 2004. Types of life insurance in the market of insurance are:

- a) Combined Life Insurance
- b) Debtor's Life Insurance
- c) FLEXI-PLAN Health Insurance
- d) Travel Life and Health Insurance
- e) Ensuring the Life and Health of Students
- f) Life and Health Insurance
- g) Group Life with Personal Accidents
- h) Personal Accidents
- i) Ensuring the Life of Pupils and Students

Below is an analysis of some of the above insurance products:

a) Combined Life Insurance

This insurance provides the benefit of the life insurance sum in case within the period of insurance, the insured is diagnosed with one of the critical diseases such as: Cerebral Stroke, Cancer, Heart Attack, Total Paralysis or Kidney Failure.

This insurance also covers:

- The risk of death of the insured due to natural or accidental causes
- The risk of remaining permanently disabled for causes and damages as a result of the accident
- The risk of remaining temporarily disabled for causes and damages as a result of the accident

The critical illness benefit amount may be equal to the Sum Assured Life or to be chosen by the insured himself. The life insurance market in Albania and the factors affecting its development

b) Debtor's Life Insurance

This insurance is valid both for people who receive mortgage loans and for those who get business loans. Covers the risk of death of the insured due to natural causes or accidental, without any territorial limitation. It offers a financial guarantee both for the person, the life of which is insured as well as for the Bank or Financial Institution, which is the Beneficiary and that in the event of the death of the insured, benefits from the insurance company as compensation, the insurance amount up to the amount of the principal amount of the insured loan remaining unpaid.

In case the borrower dies as a result of an accident or illness, the company e insurance, repays the obligation to the Bank by freeing the borrower's family from obligations to pay loan installments. The insurance premium is calculated taking into account age, sex of the insured person and the amount of the loan. This type of insurance accounts for the largest share of life insurance types in Albania. In the first 6 months of 2021, he took 53.67% of Life insurance.

c) FLEXI-PLAN Health Insurance

Everyone who enjoys good health hopes that it will last a lifetime, but it doesn't always happen so. We are all exposed to various diseases and risks, that threaten our health, life and well-being. Flexi Plan health insurance is available for individuals, families and groups of public and private sector employees. It is offered in three insurance scheme, between which the insurance scheme needed can be chosen.

1.2. Developments of the Insurance Market in Albania for the period January-June 2022

The insurance market grew by 34.61% during the period January-June 2022. The value of premiums written gross in this period reached about ALL 5.31 billion. This was accompanied by a decrease in the number of insurance policies by 1.34% reaching 447,244 policies. Another indicator of market performance, gross claims paid, in total, recorded a decrease of 2.44% in compared to the period January-June 2021. Most of the gross damages paid I belongs to motor insurance with about 1.08 billion ALL, or 82.11% of the total damages paid gross.

Although the latest data of the Financial Supervision Authority up to June 2022 show an increase in the life insurance portfolio, compared to June 2021, the reason is only the increase of the debtor's share. Most gross written premiums belongs to "Debtor's Life" insurance and constitutes 53.67% of Life insurance. Premiums written gross in Life insurance increased by 15.16% compared to the January-June period of the year 2021 (FSA, Monthly publication, no. 125 of 2022).

The increase in life insurance is closely related to the increase in the level of lending and Life insurance for loan effect. This increase has been more moderate compared to the years the past, because the credit growth rates during the last year were also lower. The number of life insurance contracts, according to the AMF data, reached 51,091 marking an increase of 27.6 percent compared to January - June 2021, when this number was 40,039 contracts. They exercised the life insurance activity for this period only three companies, Sigal-Life, Insig and Sicred, where Sigal-Life led the market with 53.94 percent of premiums.

2. Literature Review

The main factors that have a significant impact on the development of the sector life insurance, are categorized into four groups:

- Economic variables (income level, inflation and interest rates, level of mortgage loan)
- Demographic variables (population, population density, average standard of living, life expectancy)
- Cultural and social variables (education, education and religious belief)
- Market structure and institutional variables (financial development, quality of supervision).

Income is a major variable affecting the demand for life insurance. Higher incomes affect the increase in demand for life insurance for two reasons: individuals can afford to purchase life insurance products and thus increases the need for securing potential income. Income has a significant impact on premiums of life insurance. In this study, to calculate income per capita was used GDP ratio per capita.

Inflation has a negative impact on the demand for life insurance as it damages policies insurance and makes them less attractive. Insurers lose from depreciation of currency, while the insured may have other better financing options. The real interest rate is also related to the effect of inflation. However, the effect of a higher real interest rate on life insurance premiums is puzzling because the effects on supply and demand can be complex. The net effect will depend in terms of interest rates, line of business composition and portfolio composition of insurers. Beck and Webb argue that: higher interest rates can increase the return on investment of insurers who would be able to offer more consumers. But an increase in interest rates apart from that would have a positive effect in real annual rates, on the other hand it would have a strange effect on the number of policies and annual premiums.

Population size has a positive impact on life insurance demand. For one level given per capita income, a larger population not only brings a clientele bigger for insurance companies but also bigger risk pools, which reduce the risk for insurers and enable them to reduce their coverage payments.

Population density, among others, has a positive effect on the reduction of marketing expenses and distribution costs and insurance premiums. So one population with high density, means greater distribution of expenses insurance company. Many studies conclude that predicting life expectancy has a negative impact in the life insurance claim. A prediction of a long life is accompanied with a low probability of death and lower need for life insurance.

Education and training increases the demand for life insurance because it increases the level of awareness to relevant risks. The more educated the population, the greater the possibility of the meaning of life insurance. This is also associated with the fact that people with higher education, they usually benefit from a higher income, and thus can afford their expenses such. In recent years, relevant institutions are giving special importance to distribution of information. The purpose of the information is to increase awareness of the risks and the importance of protection against major risks, through insurance. This is about catastrophic risks and long-term risks (eg, retirement life insurance, long-term care and disability) which people generally fail to understand and manage, in a reasonable and sustainable manner.

3. Research Methodology

Life Insurance Penetration is defined as the ratio of premium volume to GDP and measured the importance of insurance activity, compared to the size of the economy. In the table below, this ratio is calculated in %. Over the years, it is noticed that this indicator has had increasing trends, culminating in 2020 with a value of 0.0069%. IN in the following years, a downward trend is observed, although in small values.

Life Insurance Premiums Written/GDP Ratio

Year	2014	2015	2016	2017	2018	2019	2020	2021
Prime/GDP in %	0.0012	0.0014	0.0017	0.0046	0.0034	0.0076	0.0069	0.0067

However, life insurance penetration is not a perfect measure, while it is one product of quantity and price. A higher volume of premiums, I can reflect an amount more large, a higher price or a mix of elements such as mortality, savings, etc. Lack of competition can also increase the price of insurance without being affected by one higher level of insurance consumption.

Life insurance density, the second measure of life insurance consumption is calculated as premium per capita. It shows how much each individual spends on average for insurance. Data are in USD.

Life/Life Insurance Premium Written Report

Year	2014	2015	2016	2017	2018	2019	2020	2021
Prime/Capita in %	3.7	5.23	7.49	19.04	14.09	34.44	30.22	30.99

4. Data Analysis and Interpretation

Life Insurance and Mortgage Loan

Property and life insurance with an insurance company is an added guarantee for borrowers and lending banks. Insurance for the individual and the borrower is one basic need for him as in the case of unforeseen events, it helps him in repayment of the loan and frees him from an extremely heavy burden, such as that of installments of the monthly loan.

To study the relationship between the level of life insurance premiums sold in the our countries and the level of mortgage loans of individuals, I did a study using the Eviews program. The data pertain to the monthly level of individual mortgage loans and the level of monthly life insurance premiums. There are 83 data, respectively from the month July 2015 to April 2022.

The Granger test studies precisely the interdependent relationship between premiums and the level of loans mortgage. The first hypothesis assumes that: the level of loans does not depend on the level of premiums while the second hypothesis, that the level of premiums does not depend on the level of mortgage loans.

Pairwise Granger Causality Tests

Date: 14/06/22 Time: 22:47

Sample: 2015M01 2022M12

Lags: 2

Null Hypothesis	Obs	F-statistic	Prob.
PREMIUM does not Granger Cause LOAN	81	1.49288	0.2312
MORTGAGE LOAN does not Granger Cause PREMIUM		9.37988	0.0002

Hypothesis 0: mortgage loans do not depend on the level of premiums, as F is observed is less than the critical F which is equal to 5.

Hypothesis 1: The level of premiums, does not depend on the level of mortgage loans falls, since F observed greater than the critical F.

This means that the level of premiums depends on the level of mortgage loans. So the level of premiums is the dependent variable and the level of mortgage loans, the independent.

Based on this result, the model was built:

Dependent Variable: PRIMI Method:

Least Squares Date: 14/06/22 Time: 22:56

Sample (adjusted): 2015M07 2022M05 Included observations: 83 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Loans	0.002565	0.000375	6.834864	0.000
C	-2177.923	10562.84	-0.206187	0.8372
R-squared	0.365777	Mean dependent var	68392.46	
Adjusted R-squared	0.357947	S.D. dependent var	25339.04	
S.E. of regression	20303.71	Akaike info criterion	22.69880	

Sum squared resid	3.34E+10	Schwarz criterion	22.75708	
Log likelihood	-940.0001	Hannan-Quinn criter	22.72221	
F-statistic	46.71537	Durbin-Watson stat	1.561040	
Prob(F-statistic)	0.000000			

And the econometric model is: $\text{Premium} = -2177.923 + 0.02565 \cdot \text{Credit}$

To test the significance of this model, we raise two hypotheses:

H_0 : Model not significant when $\text{Beta}_1 = 0$

H_1 : Significant model when $\text{Beta}_2 \neq 0$

Since the observed F is greater than the critical F, the H_0 hypothesis fails. So the equation is important.

5. Conclusion and Recommendations

Albania is characterized by a relatively small life insurance market, such as the point of view of the number of companies operating in the market (only three insurance companies exercise their activity in the field of life insurance) as well as from the total volume of premiums written in relation to GDP. As a conclusion it can be said that the development of the market life insurance plays an important role in the economy as a whole because:

- life insurance products encourage long-term savings and re-investment of sums significantly in private and public projects;
- life insurance also serves as a substitute for government social programs;
- creates liquidity and uses economies of scale in investments.

The main variables that influence the development of the life insurance market are those economic, demographic, cultural and market structure. Among them, the level of giving mortgage loans, can be mentioned as the key factor, which directly affects the development of this market. This is because life insurance is a condition for obtaining mortgage loan. This dependence was also confirmed with the Granger test, in the Eviews program and constitutes the novelty of this paper. Growth in the life insurance market is closely related to the level of lending. This increase of recently, it is more moderate because credit growth rates are lower. A role extremely important in the further development and supervision of the insurance market in Albania and that of life insurance in particular, the AMF will continue to play through the package of medium-term measures it will undertake. Bearing in mind that the main problem is the culture of the Albanians, in relation to life insurance, I personally think that it should be taught exactly in this direction. Not only marketing of life insurance companies, not just programs or packages of measures taken by the AMF, but a strong role of the media and programs is also needed educational perhaps, to emphasize among the younger generations and among skeptical individuals.

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