

*The insurance market in Albania, the degree of concentration, and consequences on the economy*_____

Elisa KORSITA, MSc.¹ _____

EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA
ekorsita@uet.edu.al

Prof. Asoc. Dr. Elvin MEKA² _____

DEPARTMENT OF ECONOMICS & FINANCE,
EUROPEAN UNIVERSITY OF TIRANA, TIRANA, ALBANIA
elvin.meka@uet.edu.al

¹ Elisa Korsita has completed her bachelor's studies at Agriculture University of Tirana, faculty of Economics and Agrobusiness with Finance and Accounting profile. During these three years she worked as a Marketing Specialist at Horeal Expo Group company. Following her bachelor's degree, she continued her master's studies at European University of Tirana, Faculty of Economics, Business and Development in Accounting and Financial Reporting profile. During her master's studies she worked for a year as a loan administration specialist, at NOA Operations Department (non-bank financial institution). Actually, she is working as a teller at Banka Kombëtare Tregtare (BKT).

² Prof. Asoc. Dr. Elvin Meka has more than 16 years of experience in central and commercial banking, capital, and securities markets in Albania, as well as more than 11 years of academic experience as Vice Dean & Head of Department of Finance and Vice Rector for Academic Process, at European University of Tirana (UET). Prof. Asoc. Dr. Elvin Meka has worked for various institutions, such as: Bank of Albania (Issuing Department, Monetary Operations Division, Stock Exchange Department), Tirana Stock Exchange (CEO), Albanian Association of Banks (Secretary General), Emporiki Bank – Albania, – Credit Agricole Group (CFO) and “LUARASI” University College (Administrator). He has been board member of Mountainous Areas Development Agency – MADA, Business Consultative Council, Chairman of Internal Audit Committee for Public Sector at Ministry of Finance, member of “INSIG” Internal Audit Committee, Editor-in-Chief of “BANKIERI” Magazine, a publication of Albanian Association of Banks (AAB), and actually is Chairman of “AK Invest” Supervisory Board and board member of the Albanian Securities Exchange – ALSE.

Abstract

The purpose of this study is to critically analyze the insurance market in Albania, its level of concentration, and somehow to answer the question whether it impacts the country's economy. The study analyzed how the insurance system in Albania has evolved, and more specifically, how the situation and progress of the insurance market in Albania is presented in the last 5 years (2016–2021), and how the degree of concentration of the insurance market in Albania is presented and what contribution it makes to the national economy of Albania. The study hypothesized that, in the insurance market in Albania, we still cannot say that we have optimal competition, as we still have a high degree of concentration, and that this factor has also influenced the weight of the insurance market in the economy of Albania. Throughout the study, the qualitative methodology was used, through the case study, from where, statistical processing and the comparative method was used as a method. The study concluded that within the insurance market in Albania, we still cannot say that we have fair competition, as we still have a high degree of concentration, and that this factor has begun to affect the weight of the insurance market in the economy in Albania. It is recommended that the AMF work more towards stabilizing competition and the degree of concentration of the insurance market in Albania, stabilizing the price level.

Keywords: insurance, market, scale, concentration, economy, impact, stabilization.

1. Introduction

Insurance plays an important role in the development of the economy around the world, being an important source of capital accumulation and investment. Insurance may promote financial stability, mobilize savings, facilitate commerce, enable more effective risk management, encourage loss reduction, and promote efficient capital allocation, as well as serve as an alternative for and supplement to government security initiatives. Insurance, and especially life insurance, is perceived as a service that people buy for their loved ones because they need to take care of them in case something unexpected happens. As such, it has a social impact in addition to an economic one (Skipper, 2001).

Albania is a country that has experienced a long transition, after the beginning of reforms in 1990. In the first decade, economic changes did not prioritize the insurance industry. Albania's insurance sector has grown dramatically in the second decade of the transition period. The number of insurance businesses has grown,

foreign money has entered, the law has been much strengthened, and so on. Non-life insurance products have long dominated the Albanian insurance industry. The insurance market in Albania has developed significantly in the second decade of the transition period, precisely during which the number of insurance companies has increased, foreign capital has entered, legislation has been significantly improved, etc. (Naqellari et al., n/a). The late development of the insurance sector in Albania may be one of the reasons it is not yet taken into account in academic studies.

However, worldwide research implies that there may be a link between economic progress and insurance activity in poor nations such as Albania. In this context, this study seeks to address and analyze the progress of Albania's insurance market, analyzing not only the evolution of this practice and the schemes implemented over time, but also the current challenges it is facing, as well as presenting the perspectives, their development, and the challenges for a deeper implementation that is still lacking.

2. Methodology

The goal of this study is to critically examine Albania's insurance industry, its level of concentration, and to understand whether it has an influence on the country's economy. The study is based on the concept that there is still no ideal competition in the Albanian insurance market, resulting in a significant degree of concentration, which impacts the weight of the insurance market in the Albanian economy. In this context, the qualitative technique, more especially the case study method, was applied in this research. The case study is based on statistical data analysis to give a clearer understanding of the insurance industry across the years studied. The primary data for the statistical analysis of the study was accessed from the official website of the Financial Supervision Authority (AMF) from 2016 - 2021, which is the entity in charge of supervising the insurance market in Albania based on the law in effect, in terms of the performance of the insurance market in Albania. The study also applies the comparative method, that is, a comparative qualitative study, which is based on the analysis and interpretation of the collected data.

3. Literature review

3.1. The role of insurance in the economy and their impact

Insurance plays an important role in the economy. Insurance companies reduce risk, as they manage large groups of objects and events, increasing predictability.

This is exactly how the insurance industry and insurance market are related to economic development since insurance is part of the financial market. Insurance companies help keep our economy strong and vibrant in many ways. The insurance market affects the economy by improving the investment climate, primarily by managing risk and controlling unexpected losses. Insurance also promotes the economic and social development of the country (AKA, 2017).

The primary macroeconomic factors highlighted in the research are insurance demand and inflation (Modigliani-Miller, 1958); total assets; the price of insurance (Mantis & Farmer, 1968); inflation (Babbel, 1981), unemployment; demographic factors (Browne et al., 2000); risk; cultural factors (Hofstede, 1995); market structure (Feyen et al., 2011); Social insurance (Lewis, 1989); legal and regulatory environment and more recently political risk and governance (Park and Lemaire, 2011).

The literature related to insurance shows that previous researchers have focused on the impact of economic growth on the overall development of the insurance sector. The study by Beenstock et al. (1986) for example, was among the first empirical research to find that the demand for life insurance depends directly and positively on income, as measured by GDP per capita.

Ward and Zurbruegg (2000) examined the short- and long-run dynamic relationships between economic growth, as measured by annual real GDP, and the insurance industry, as measured by total real premiums, for nine OECD countries from the period 1961– 1996. They found that the causal relationship between economic growth and insurance market developments varies across countries. Webb et al. (2002) on the other hand examined banks, life, and non-life insurers individually and collectively for 55 developed and not developing countries from 1980 to 1996 and discovered that there is no relationship between economic growth and non-life insurance, but economic growth affects life insurance penetration while not predicting banking development.

Using the net written premium of insurance, Kugler and Ofoghi (2005) discovered a long-run association between the rise of insurance market size and economic growth. They also determined that the causation from GDP growth to insurance market size development is stronger than the causality from the other side. Moreover, Adams et al. (2009) used time series data from 1830 to 1998 to examine the long-term historical link between banking, insurance, and economic growth in Sweden. Their results for the whole period show that the banking sector has the dominant influence on both economic growth and the demand for insurance, while the insurance market seems to be driven by the pace of economic growth.

Meantime, Boadi et al (2013) find a positive impact of leverage, and liquidity and report a negative impact of asset tangibility on the profitability

of insurance firms in Ghana for the period 2005-2010. Zhu (2013) investigates the correlations between solvency, operational ability, and profitability in 1994, 1995, and 1996 using structural equation modeling. According to the conclusions of this study, the operating ability has a favorable influence on the size and profitability of life insurers and a negative effect on return on capital throughout these years, whereas solvency, asset, and product risk have no effect on capital return.

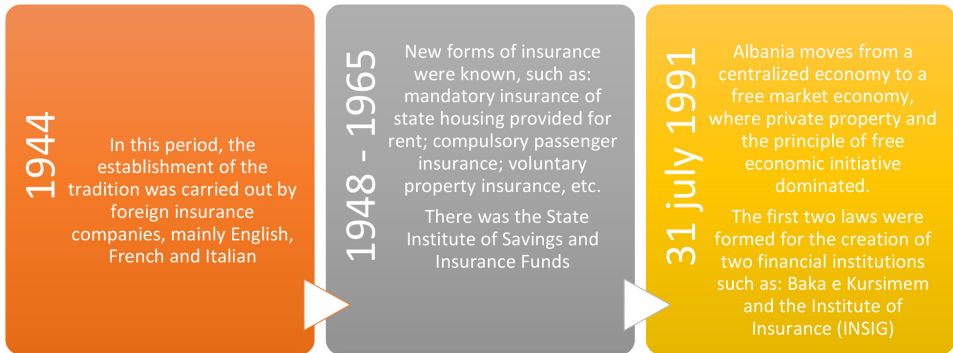
Another study from Čurak et al (2011) investigated the main determinants of financial performance of composite insurance companies in Croatia during the period 2004 to 2009 and report that size, underwriting risk, inflation, and capital returns have a significant impact on insurers' capital return. The regression results show the positive impact of gross premium growth, GDP growth, and foreign ownership of companies and the negative impact of the operating expense ratio for a panel of 25 Polish non-life insurance companies for the period 2002- 2009. Ahmed etc. (2011) also examined the impact of firm-specific factors including size, leverage, tangibility, risk, growth, liquidity, and age on the performance (return on assets) of listed life insurance companies in Pakistan for the period 2001-2007. Their findings suggest that size and leverage are the only statistically significant drivers of life insurance company success in Pakistan. Growth, age, and liquidity are statistically negligible, but size has a positive coefficient and financial leverage has a negative coefficient.

Another study looked at the market concentration of Romania's life and non-life insurance businesses between 2015 and 2019. Market concentration was measured using the concentration ratio and the Herfindahl-Hirschman index. The data indicate that the life insurance business is more concentrated than the non-life insurance market. Non-life market concentration has risen from a moderate market in 2015 to a narrow oligopoly weight in 2019, however the life insurance sector has maintained a narrow oligopoly throughout the time, according to concentration ratio estimations. Market concentration has increased in both the non-life and life insurance sectors. Except for a little increase in 2016, concentration ratios and the Herfindahl-Hirschman index in the life insurance market have been quite constant, with only minor fluctuations (Serban et al., 2021).

3.2. A historical overview of the insurance market in Albania

In terms of the historical evolution of the insurance industry in Albania, the following scheme depicts three major moments:

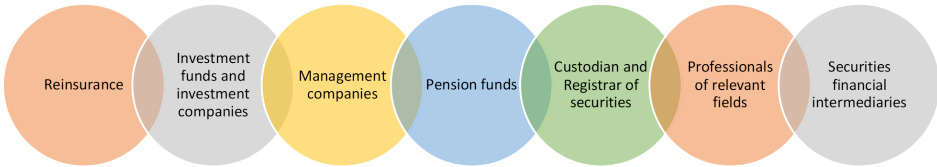
FIGURE 1. Historical development of the insurance market, stage 1



It is also important to note that in Albanian law, the insurance market is divided into two major subgroups: life insurance and all other non-life insurance. As indicated by the papers and the AMF study, the Albanian legal framework in the insurance business has converged with the European one in recent years. The Albanian insurance industry needs appropriate growth incentives, notably from the government will, which could encourage this sector by permitting and supporting expansion. The principal legislation controlling this market is Law No. 9267 of 29.7.2004, “*On the Activity of Insurance, Reinsurance, and Mediation in Insurance and Reinsurance*,” as amended by Laws No. 9338 of 16.12.2004 and 9685 of 26.02.2007. Despite the fact that such legislation has been adapted to that of the European Union, as a result of the *Acquis Communautaire*, it may be argued that changes or improvements are still required, despite the fact that the AMF has linked this law to the new amendments and distributed the articles.

The required insurance market today has the most clout in Albania, highlighting the importance of sustained expansion. It is crucial to note that there are various actors in the insurance sector; nonetheless, this information will be supplied below (AKA, 2017). Furthermore, some of the significant types of enterprises operating in the Albanian insurance market should be highlighted; some of the main groups are as follows:

FIGURE 2. Types of insurance in Albania



Furthermore, it is also worth presenting the functional supervisory structure in the insurance market, which is certainly not applicable to all non-banking institutions.

Finally, it is worth mentioning that there are over 39 different types of insurance policies available on the market today, divided into 7 main insurance categories, which are personal and commercial liability insurance, personal and business vehicle insurance, property insurance /Ownership, Health Insurance, Life Insurance, Transport Insurance and Liability and Guarantee Insurance (AKA, 2017, pp. 25-33).

4. Analysis of the insurance market in Albania

According to World Bank Report (2019), between 2007 and 2017, the Albanian insurance industry expanded in all claim-paying groups. All insurance segments showed a positive trend throughout the period. Non-life insurance maintained its share of about 92 percent of all premiums written. The value of gross paid damages increased in annual terms to 4.8 billion ALL. Despite nearly tripling over this time, life insurance remains an undeveloped industry in Albania. The non-life insurance market followed a similar pattern, doubling while maintaining the same market proportions.

Since 2008, it has strongly influenced the market. In terms of portfolio, the Albanian insurance industry has not evolved considerably in the recent ten years (WB, 2019). Insurance penetration since 2008 has been continuously increasing, from 0.65 percent in 2008 to 1.04 percent in 2017. This indicator shows that economic growth alone does not drive the volume of insurance premiums; insurance premiums grew twice as fast between 2008 and 2016 (9.8 percent) as nominal GDP growth (4 percent). Despite this healthy increase in premiums, the insurance sector in Albania remains small in absolute terms and comparison to its counterparts in the region. With 1.04 percent insurance penetration, the market is at an early stage of development. With the insurance consumption of USD 46 per capita, Albania lags behind the counterpart countries of South-Eastern and Central Europe. For example, this figure is lower than in Kosovo, where premiums per capita are USD 52, Macedonia (USD 79), and Croatia (USD 327). Albania ranks 130th in total premiums (USD 135 million) in 181 insurance markets in the world in 2017 (WB, 2019).

Because third-party liability insurance is frequently required in developing countries, car insurance tends to emerge early. Life insurance markets frequently arise later because they are more dependent on the emergence of the professional class and capital markets. This is likewise true in Albania, where motor classes

account for the vast majority of market share. For example, the strong GDP growth in 2014 was largely due to an increase in the number of compulsory premiums after a period of seeming stagnation. This occurred as a result of actions taken to stabilize market pricing and safeguard them from fierce competition. The AMF took stabilization measures that year, including tightening rules on payment discipline for motor insurance claims and significantly strengthening the Compensation Fund, which compensates victims of uninsured and unidentified drivers, as well as damages against the bankrupt insurers for transferring significant amounts of pending claims payments (AMF, 2019).

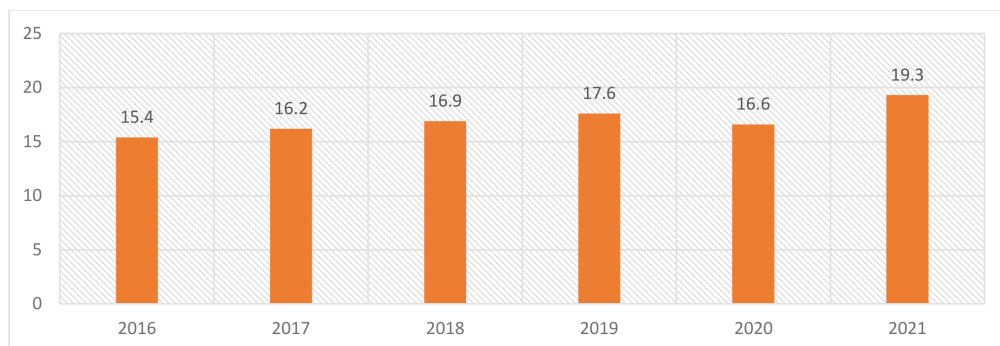
Life insurance premiums roughly doubled between 2008 and 2011, followed by five years of stagnation and stagnation with minor fluctuations. Credit life insurance dominates the Albanian life insurance industry, which is dependent on the country's credit expansion. The modest dynamics of lending in the period 2015-2016 have hindered the development of the life insurance market. Loans for families in Albania create not just life insurance, but also wealth insurance for the bought assets. Individual credit has grown again since 2017, after falling to 13.2 percent in 2017. Consumer credit increased by 8%, while mortgage credit increased by 2%. The mortgage loan accounts for approximately 63 percent of the surplus of loans received by resident families in 2017 (BSH, 2017).

In 2017, the insurance market did rather well, financially. GDP rose by 5.4 percent in 2017, reaching ALL 16.2 billion. Non-life premiums rose by 4.2 percent, while life premiums rose by 23.2 percent. The market was dominated by non-life insurance, which accounted for 92.1 percent of total GDP volume, with life insurance accounting for 7.4 percent. In 2017, the number of insurance contracts reached 1,261,238, a 12% increase over 2016, indicating that the increase in premiums reflected not just the general increase in insured values (e.g., newer automobiles), but also that more people and companies purchased new insurance. Insurance accounts for the lion's share of overall non-life premiums (66.8 percent). Albanian insurers recorded a GDP of ALL 12.46 billion (EUR 98.7 million) in the third quarter of 2018, a 9.73 percent year-on-year rise. During the same time period, damages paid fell by 3.1 percent to ALL 3.39 billion (EUR 26.86 million). The domestic branches of the Austrian UNIQA group lead the life and non-life insurance segment (World Bank, 2019).

Although non-life insurers' total assets under management have steadily increased, their share of total insurance assets as a percentage of GDP (2 percent in 2016, up from 1.4-1.9 percent from 2007 to 2015) has been lower than in comparable countries such as Croatia (11.4 percent), Bosnia and Herzegovina (7.1 percent), Serbia (5.1 percent), and Macedonia (3.1 percent). Despite the rise of the insurance sector, its share of the financial markets maintained at 30% from 2013 to 2016. The slight expansion was caused by an increase in overall premium

volume, mostly in required auto insurance products. The total assets managed by life insurers are small because life insurance in Albania is barely developed and mostly short-term. The overall assets of the insurance market climbed by 4% in 2017, reaching ALL 30.6 billion, a gain that was virtually exclusively impacted by the non-life insurance industry (World Bank, 2019). Because the capital market is weak, it is difficult for life insurers to create appealing plans that provide long-term capital accumulation. With the licensing of Albania's first private stock exchange, which became live in February 2018, some progress has been achieved in the financial market infrastructure. Investments of insurance companies have focused on bank deposits, treasury bills, and bonds. Deposits account for the majority (50.5 percent), followed by land and buildings (18.1 percent) and treasury bills and bonds (12.5 percent). Meanwhile, the following figure shows the change from 2017 to 2021, where it is noted that the gross premiums until 2021 have increased significantly, in fact in the last year they increased by 16% and are heading towards normalization.

CHART 1. Gross written premiums in insurance (billion ALL)



Source: <https://www.monitor.al/tregu-i-sigurimeve-u-rrit-me-16-per-vitin-e-kaluar/>

4.1. Insurance companies and their degree of concentration

The first insurance company, established in 1991 as a state-owned company, was INSIG. From 1991 to 1999, the insurance market in Albania was a monopoly, because INSIG was the only provider. In 1996, the regulatory framework for market liberalization created the conditions for private life and non-life insurance companies, although it was only in 1999 that two new insurance companies, Sigal and Sigma, began to compete with INSIG. These two private companies broke the eight-year monopoly of INSIG and gave a new dimension to the sector, creating a new spirit and a competitive environment. Two more non-life insurers (Intersig and Atlantic) entered the market in 2001. In the autumn of 2004, five

new insurance companies received licenses and two of them offered life insurance products: Interlbanian, Albsig, Eurosig, Sigal Life, and Sacred Life. In 2007, the Austrian UNIQA Group completed the partial acquisition of SIGAL group companies.

SIGAL UNIQUA companies remain the clear market leader in life and non-life insurance. Sigal Uniqua Group Austria is the market leader in both the life and non-life insurance sectors. Sigal Life Uniqua Group Austria has a 61.3 percent market share in GWP (third quarter 2018), while its sister firm, Sigal Uniqua Group Austria, has a 26.3 percent market share in non-living life insurance. SIGAL was founded in 1999. In 2010, UNIQA bought the right to purchase the majority of the company's shares after having bought a share in 2007. SIGAL was the first company in the Albanian market to receive a reinsurance license, approved in March 2006, which he mainly uses to reinsure the group's companies in Kosovo and Macedonia. The second-ranked company was Eurosig, with a market share of 15.2 percent in 2017. Sigma Interlbanian Vienna Insurance Group was the third-ranked company, with a market share of 14.4 percent. Vienna Insurance Group acquired a majority stake in Sigma in September 2007. In October 2010, Vienna Insurance Group acquired Interlbanian, the fourth-ranked non-life company 2014, and the two companies merged in 2014. The company has subsidiaries in Kosovo and Macedonia. Albsig ranked fourth with a market share of 13.1 percent and is also licensed in Macedonia. The third company in the Vienna Insurance Group is Intersig, acquired in August 2011, with a market share of 11.2 percent.

Thus, Vienna Insurance Group's overall market share in Albania was approximately 25.6 percent in 2017. INSIG, the former state monopoly, had a significant decrease in its share, from 18.6 percent in 2006 to 6.7 percent in 2016. In March 2016, the Albanian government announced the end of its long process for the privatization of INSIG. As the first insurance company operating in Albania, INSIG played a defining role in the creation, development, and consolidation of this business. Outside of Albania, the corporation has expanded its activities by establishing new subsidiaries in Kosovo and adjacent Macedonia. Non-life insurer Eurosig, which outbid three other companies in a bid of US\$17.9 million, acquired the company in May 2016. In January 2017, Eurosig announced that it had sold 90 percent of its life business to INSIG in equal shares in Albsig and an Albanian business entrepreneur, Samir Mane, owner of the Balfin Group. The quoted price was 1.1 million USD.

Until 2017, 11 companies were in the Albanian insurance market, eight of which were non-life insurers and three were life insurers. Market concentration is high and the upward trend has been interrupted only slightly over the past two years. The combined market share of the five largest non-life insurers was 80.2 percent and the top three was 55.8 percent in 2017 while below is the current situation through 2021.

TABLE 1. List of companies registered as insurance companies until the end of 2021

1	J62006012D	INSIG sh. a	Tirana	Insurance company
2	J91329003O	SIGMA INTERALBANIAN VIENNA INSURANCE GROUP sh. a	Tirana	Insurance company
3	J91809007H	"SIGAL UNIQA GROUP AUSTRIA" sh.a.	Tirana	Insurance company
4	K51423801Q	"SIGAL - LIFE UNIQA GROUP AUSTRIA" sh.a.	Tirana	Insurance company
5	K11807008V	"ATLANTIK- SHOQËRI SIGURIMESH" sh.a.	Tirana	Insurance company
6	K12201002T	"INTERSIG VIENNA INSURANCE GROUP" sh.a.	Tirana	Insurance company
7	K42108801C	"ALBSIG" sh.a	Tirana	Insurance company
8	L92019017V	"ALBSIG JETE" sh.a	Tirana	Insurance company
9	K41926801W	"EUROSIG" sh.a.	Tirana	Insurance company
10	L21319037M	"ANSIG" sh.a.	Tirana	Insurance company
11	K42201801Q	"SICRED" sh.a.	Tirana	Insurance company
12	L71325020H	"INSIG JETË" sh.a	Tirana	Insurance company

Source: The Bank of Albania, 2022

Making a small comparison, Kramaric (2012) investigated the market structure and degree of concentration in the new EU member states' insurance markets (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia, and Slovenia). The investigation found that the amount of concentration has dropped in all of the nations studied, but at varying degrees of intensity. This was explained by the fact that these nations had centrally planned economies, with a state-owned business providing the majority of insurance services. Following the fall of communism, certain nations immediately embraced free market policies, boosting the share of insurance businesses operating in insurance markets, particularly those with foreign capital, resulting in increased competition. Given the size and expansion of the market in Albania, the competition was a beneficial aspect. The industry's movements over the previous 18 years reveal that the structure of the insurance market in Albania has shifted from state monopoly (until 1999) to monopolistic competition and moderate concentration, but the degree of competition varies by class and activity. The index has distinct levels for the life and non-life sectors (WB, 2019).

Overall, the data set averages to show that a "natural level" is closer to the data set averages of around 2000 to 2200 for life insurers and 1200 to 1500 for non-life insurers. Because of the small number of insurance companies participating in the life insurance market, life insurance activity is more concentrated than non-life insurance. Life insurance activity is around three times that of non-life insurance activity and has been rising, reaching 4,571 in 2017 (against 3,411 in 2007). The HHI for non-life insurance is 1,558, which is within the competitive range. All

firms are domestic joint-stock enterprises. Foreign insurers are permitted to enter the Albanian insurance market and establish wholly owned subsidiaries and branches.

The separation of life and non-life insurance is required under insurance legislation. All insurance companies operate through branches in the provinces, many of which function as independent units, issuing policies and settling claims. The lack of qualified distribution channels characterizes the Albanian insurance market. Insurance knowledge is practically non-existent in banks (which act simply as referral agents) and low among agents, so the skills needed for active product marketing are largely lacking (AXCO, 2019). In 2017, there were 16 brokerage companies, 224 insurance agents (of which 165 were licensed for the first time), 36 brokers, and 14 agent companies (AMF, 2019). A recent trend in Albania is that banks have formed their brokerage operations after years of operating as agents for insurance companies. Banks are becoming an increasingly important source of loan-related SME accounts, but strict lending criteria limit the amount of collateral such loans can generate. Agents (Banks, branches of foreign banks, and non-bank financial entities), companies of agents (legal entities licensed by the AMF), brokers (a person licensed by the AMF to carry out insurance brokerage activities), and brokerage companies perform the activity of insurance mediation in Albania. The main distribution channel for commercial and industrial businesses is direct handling. Discussions in 2006 between the companies to establish a common online system resulted in the creation of the National Data Center in 2007 and AMF has created a common database. Insurers have websites, used to inform and attract customers, but it is not possible to buy a policy online, not least because an insurance policy requires a physical signature from the insured.

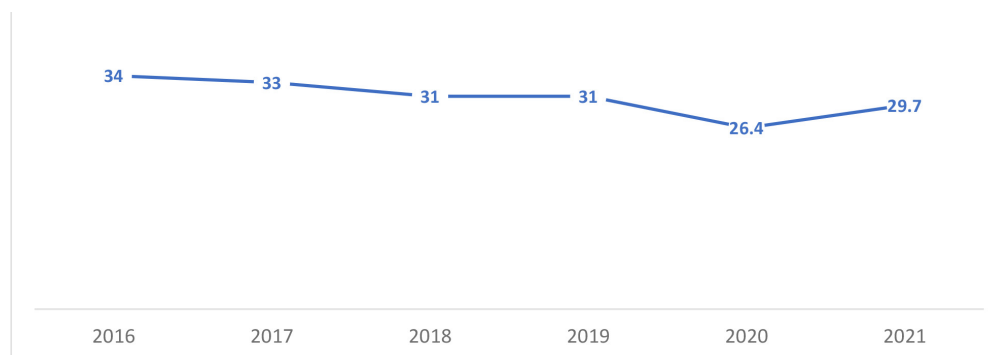
The insurance market in Albania was a monopoly until 1998 (Naqellari et al., n/a). From 1998 - 2003 it passed into an oligopoly, and until 2014, according to studies, it is still part of monopolistic competition. We have a competitive market but with a distorted function, which burdens the budget of various economic insurance entities. Although it should be noted that according to the analysis we saw in the previous chapter, the insurance market in Albania is a relatively new activity. In recent years, the increase in the number of insurance companies and the change in their structure has led to a decrease in the degree of concentration, moving towards a monopolistic competition market structure from the monopoly that was in the initial period, or the early years of this market. It is recommended that the AMF determine insurance premiums for mandatory products (Naqellari et al., n/a).

Based on the data for 31.12.2021, for the entire activity of the Non-Life and Life insurance market, the gross written premiums result in about 19.3 billion ALL, where a significant part is presented in Euros (30%). In addition to products

such as the Green Card and Border Insurance, which are mandatory, we see that there are also trends towards products such as combined Personal Accident and Health Insurance, Travel Life Insurance, and Student Life Insurance, which have been re-launched in modehën Euro (100%). Likewise, life and non-life insurances were also carried out in most cases with the euro currency, similarly in the same trend are Engineering Insurances or Goods in Transport Insurance. Especially in cases of engineering insurance that include large infrastructure works, including those works with international and import-export companies. In 2021, the share of premiums written in Euro against the total for Non-Life Insurance activity has increased by about 3.3% compared to the end of 2020, going to 29.7% from 26.4%.

4.2. Non-life and Life insurance activity premiums 2016-2021

CHART 2. Weight of premiums of Non-Life insurance activity in EUR against the total 2016-2021 (%)



Source: https://amf.gov.al/publikime_re.asp

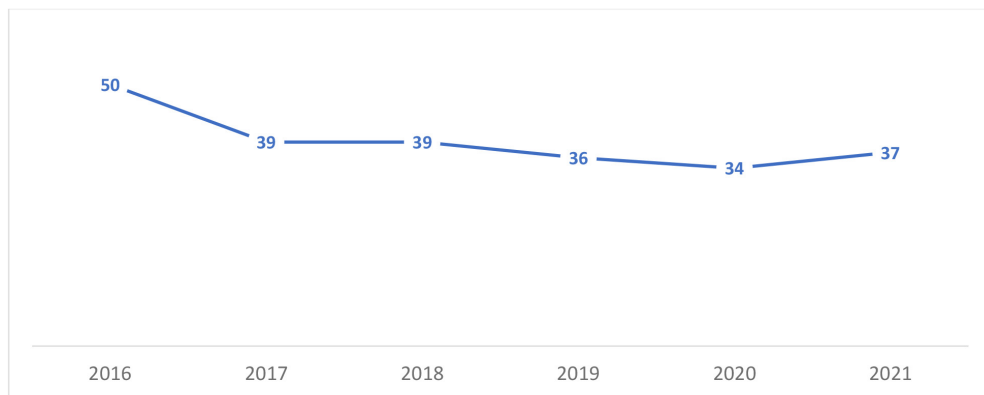
We see from the graphs an increase in premiums due to the mandatory Green Card insurance and Border Insurance with the restriction of movements from COVID-19, with the main impact of around 10 million euros (30.1%). In 2021, the largest movements of premium amounts in euros with a change from the previous year are in Marine Insurance (7.64% increase from 2020), Guarantee Insurance (4.91% increase from 2020), Motor Insurance with increased weight (3.73 % (an increase from 2020), Civil Liability with increased weight (1.39% increase from 2020). The only insurance that has suffered a decrease from euroization is Engineering Insurance (AMF, 2022).

Examining the graph below, in 2021, the weight of the premiums realized in Euros against the gross realized premiums in total for the Life activity has decreased by about 3% in contrast to 2020.

On the other hand, if we refer to the chart below for 2021, some classes

have suffered premium burdens which are Debtor Life Insurance (7% decrease compared to 2020) and Combined Life Insurance (2% decrease from 2020). On the other hand, we have a significant increase, especially in the share in euros of some insurances that include the saving element, such as Life Insurance (39% increase from 2020) and Life Insurance with variable elements (10% increase from 2020) (AMF, 2022).

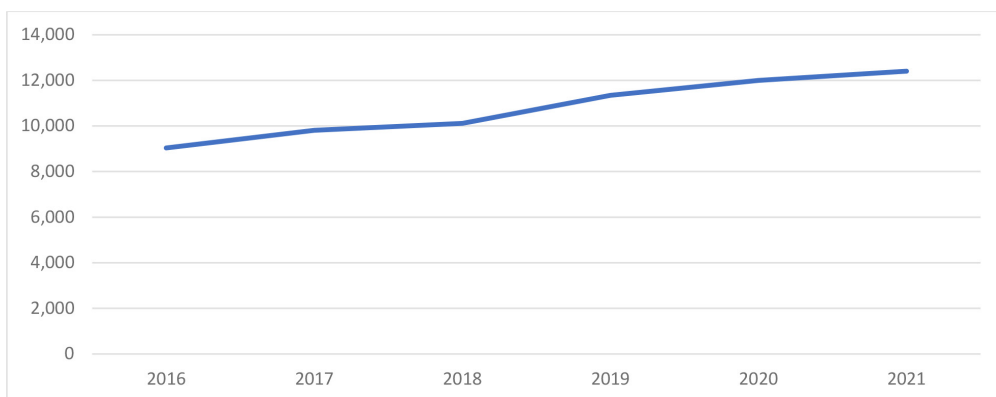
CHART 4. The weight of Life insurance activity premiums in EUR against the total 2016-2021 (%)



Source: https://amf.gov.al/publikime_re.asp

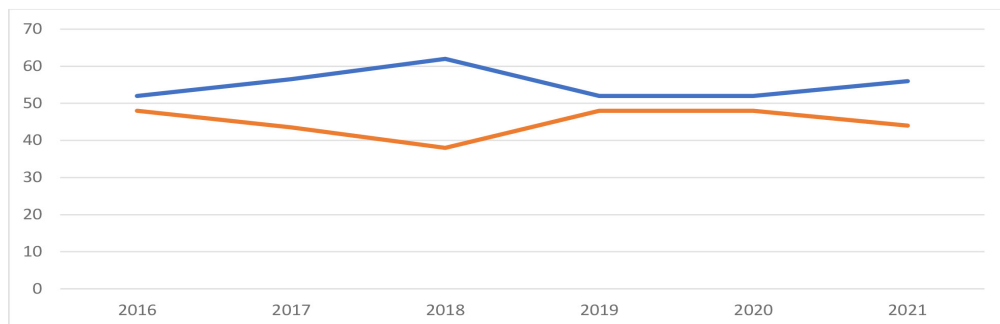
4.3. Bank deposits of insurance companies

CHART 6. Total deposits 2016-2021 (million ALL)



Source: https://amf.gov.al/publikime_re.asp

CHART 7. Weight of deposits in ALL and foreign currency against total deposits 2016-2021 (%)

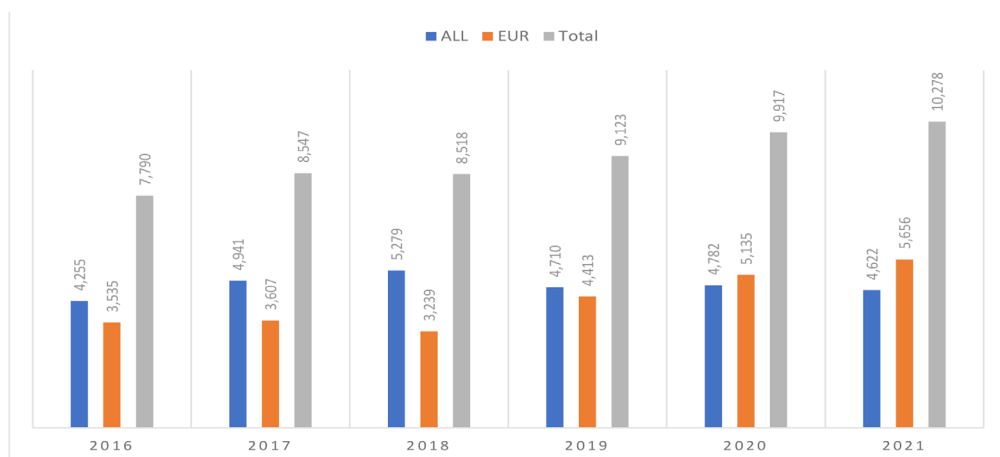


Source: https://amf.gov.al/publikime_re.asp

Deposits of insurance companies invested in Lek currencies and foreign currency for 2021 result in a total value of about ALL 12.8 billion. Of these deposits, about 48.3% of the total deposits were invested in Lek currency (about ALL 6.2 billion), while those in foreign currency appear to be about 51.7% of the total value of deposits or about 6.6 billion Lek. Deposits invested in Euro certainly occupy the largest part (90.8% of total deposits in foreign currency and 46.9% of total deposits (ALL + FX), while the rest of the deposits are invested in dollars. Deposits in foreign currency show a slight increase in value and weight to the total deposits of insurance companies against the end of 2020 (AMF, 2021).

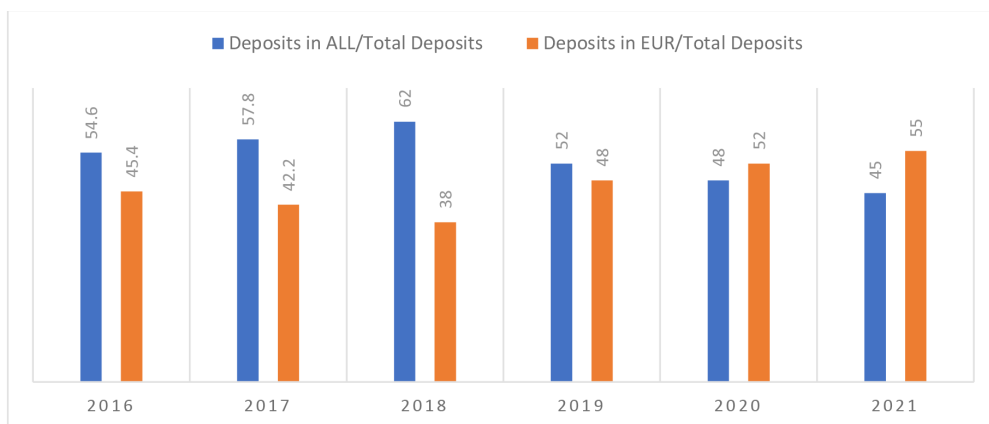
4.3. Non-Life insurance market

CHART 8. The value of deposits in Lek and foreign currency for the Non-Life insurance market 2016-2021 (ALL million)



Source: https://amf.gov.al/publikime_re.asp

CHART 9. Weight of deposits in Lek and foreign currency against total deposits (%)

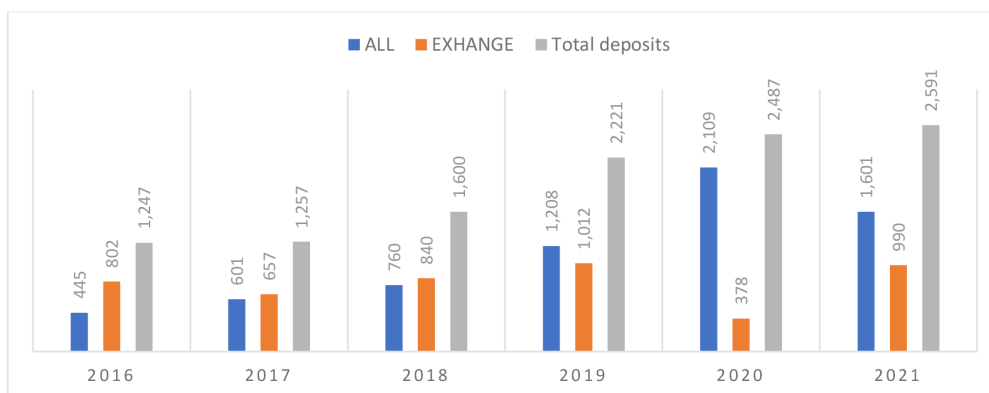


Source: https://amf.gov.al/publikime_re.asp

For 2021, in terms of the Non-Life insurance market, 46.5% of the total amount of all deposits were invested, where more than half (53.5%) were in foreign currency, emphasizing that the majority of currencies are Euro (84.3%), while the rest are in dollars. We have an increase of 2.8% in total deposits in foreign currency compared to total deposits. Due to the increase in deposits in Euro and, as a result of the decrease in deposits in Lek, the weight of deposits in Euro to the total has increased by 2.2% (AMF, 2021).

4.4. Life insurance market

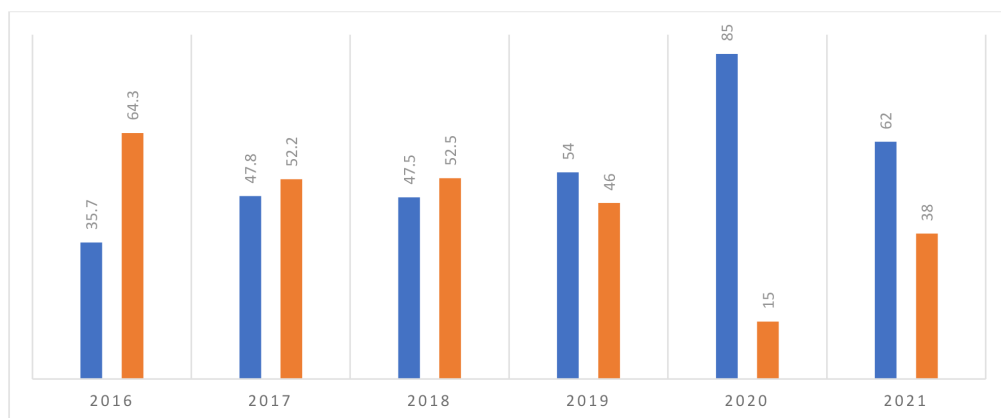
CHART 10. The value of deposits in Lek and foreign currency for the life insurance market 2016-2021 (million Lek)



Source: https://amf.gov.al/publikime_re.asp

Regarding the Life insurance market, 62% were invested in deposits in Lek, or ALL 1.6 billion compared to total deposits, while about 38% were invested in foreign currency deposits, or ALL 0.9 billion, compared to total deposits. The main weight in deposits in foreign currency is the deposits invested in Euros or the equivalent of about ALL 0.88 billion. Euro deposits again account for the majority of foreign currency deposits (89%), and the rest is in USD. We have grown in this direction from 2020 (AMF, 2021).

CHART 11. Weight of deposits in ALL (blue) and foreign currency (red) against total deposits 2016-2021 (%)



Source: https://amf.gov.al/publikime_re.asp

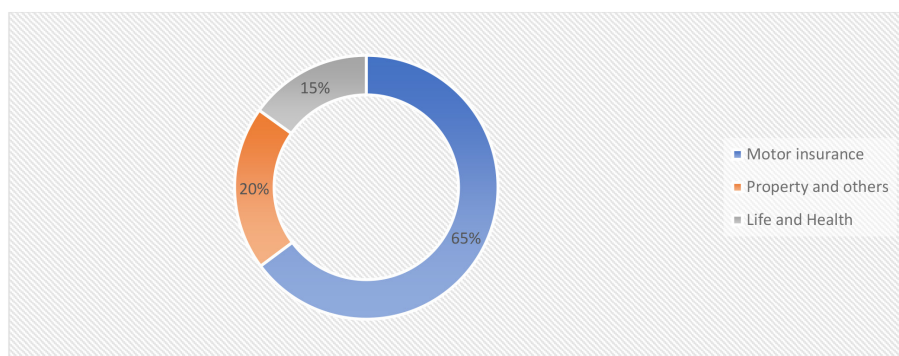
TABLE 2. Financial system activity indicators for 2021 (% annual change)

The financial system	2021
Insurance company	4%
Credit savings company	10%
Pension funds	18%
Investment funds	11%

Source: The Bank of Albania, 2022

According to the report of the Bank of Albania for 2021, as can be seen in the table above, insurance companies have experienced an increase of 4%, meanwhile, the change from 2021 to 2022 was 16%. A considerable increase, however, in normalization.

FIGURE 8. Insurance market structure, January-March 2022



Source: <https://amf.gov.al/news.asp?id=32904>

As we can see from the graph above, the market is largely oriented toward Non-Life insurance, with 92.51% of premiums, while Life insurance has only 7.45% of the total share of premiums. If we talk in ALL, the income from gross written insurance premiums for the period January-March 2022 amounted to ALL 4,280 million or 5.97% more than in January-March 2021 as declared in the middle of the year by the AMF. It is also specified for the same period that the number of concluded insurance contracts reached 247,576 with an increase of 21.99% compared to 2021 (AMF, 2022). When we talk about insurance market performance, we are mainly talking about the claims ratio (claims/premiums). Ratios below 50% indicate a market that is not functioning properly, while claims ratios that are too high may signal unsustainable levels of competition that threaten financial stability. In Albania, the claims ratio in the non-life insurance market was 31.1 percent in 2017, a trend that continued even later, with little fluctuation throughout 2020, which presented the increased problems with COVID-19 and increased control. for mandatory insurance, especially health and travel insurance. This is significantly lower than in other European countries, where it fluctuates between 60% and 70%. Such a low claims ratio in recent years is more likely to indicate poor claims performance and a low level of consumer protection.

Another performance element is also the expense ratio (expenses/premiums) which is a measure of how efficient an insurer is. The premium received should be sufficient to pay expenses and claims in most circumstances and lines of business because investment income is market driven and not fully under the insurer's control. If the expense ratio is too high, the insurer will eventually find that it cannot compete for market share against more efficient operators. Although the trend is improving in Albania, the expense ratio is high and remains above the upper limit of the generally considered normal range (less than 35 percent), the non-life market average is 64.5 % (69.8 percent for life), significantly surpassing those in other European markets. Administrative expenses grew at a higher rate than net premiums earned, driven by

distribution and operational costs. The expense ratio meant insurance companies had less money to pay claims and less value for money for consumers.

There is a third ratio to consider, the combined one (damage ratio + expense ratio). The combined ratio measures how much of the premium is being used for claims and expenses. If the combined ratio is greater than 100 percent, the insurer relies on investment income, and if that is not sufficient, on capital and surplus to cover claims and expenses. The average combined ratio of the market in Albania is around 95.6% for non-life. The average return on equity was a healthy 9.6 percent for the non-life insurance market in 2017 and 11.7 percent for life, well above the 6.5 percent average of previous years, thanks to good technical results and investment returns. All these indicators show that the performance of the insurance industry has room for improvement in Albania, where a significant part of the premium paid by consumers does not benefit them in the form of claims payments but is absorbed to finance inefficient administrations. Such an average says nothing about the health and performance of individual insurers, for whom no such information is published.

Albania chose to move from a total lack of insurance to a functional insurance market through a state monopoly. Given the government's previous role as the sole provider of risk management through social insurance, this choice is understandable, but it limited the development of a thriving insurance market for a long time. Underserved state monopolies reinforce consumers' impression that insurance is not of interest to them and the expectation that social insurance will better handle their risks, even when they do not cover more than a portion of the population.

Although a lack of awareness and understanding is a universal explanation for the lack of demand, it is justified in Albania given the communist decades without any insurance and the post-communist insurance monopoly. A country with a small (and shrinking) population with a low degree of urbanization and weak digital and regulatory infrastructure to serve rural areas translates into poor economies of scale, which in turn result in value poor customer experience about operational and administrative costs, demand turnaround times and product development and diversification.

Surveillance tools must be calibrated, market-tested, and fine-tuned after their initial development, requiring not only user training but also several reporting cycles to allow for this. A strong supervisory approach must be coordinated not only with the legal framework but also with the technical capacity of supervisory staff because absorptive capacity is critical to success.

5. Conclusions

Albania's insurance business has a lot of potential. The insurance industry has grown considerably in recent years. However, Albania has challenges and obstacles in the insurance market.

The purpose of the research is to perform a critical evaluation of Albania's insurance market, its impact on the country's economy, and the degree of concentration. The study determined that the Albanian insurance system has evolved, the insurance business has advanced in the last five years (2016-2021), and the situation is provided in these years. The level of concentration in the Albanian insurance market, as well as the contribution of the insurance business to the Albanian economy, are depicted. The study's thesis is that because there is still a high degree of concentration in the insurance market in Albania, we cannot infer that we have fair competition. This is one of the factors influencing the prominence of the insurance sector in the Albanian economy. To address the study's presented hypothesis, the insurance market was examined utilizing statistical processing and the comparison technique.

According to the study's findings, insurance businesses have reported balance-sheet expansion and, in general, higher activity revenue. Despite the significant growth of GDP in 2021, this rise is represented in a 4% increase in the financial system's proportion of GDP compared to a year before. This demonstrates that the role of the insurance industry in Albania has grown significantly and activity has expanded.

Furthermore, the numbers behind the concentration ratio for the entire competitiveness of the Albanian insurance market from 2016 to 2021 indicate that the degree of market concentration is modest. Competition is a highly essential occurrence in both economic and social life since it stimulates and sustains businesses. In recent years, the increase in the number of insurance companies and changes in their structure have resulted in a decrease in the degree of concentration, moving away from the monopoly that existed in the initial period, or the early years of this market, and toward a monopolistic competition market structure.

The insurance market may help to economic growth by acting as a financial mediator as well as a supplier of risk transfer and compensation, allowing diverse risks to be managed more effectively. Similar to the research reviewed in the literature, it was discovered that the life insurance market has a favorable influence in high-income nations but not in developing countries such as Albania, and that the insurance activity that dominates the market has a greater impact on economic growth. Because the non-life insurance market dominates the insurance business, it is believed that it would provide a good effect.

Albanian consumers have little interest in directing their savings and investments toward insurance businesses due to the low level of insurance culture and the underdevelopment of life insurance companies in comparison to other financial intermediaries such as banks and investment funds. They continue to allocate their savings toward traditional options such as bank accounts.

The analysis presented above may be of tremendous relevance to the government

and policymakers, because Albanian financial law should strive to encourage the insurance market, particularly life insurance activities, with the same zeal as the banking industry. Furthermore, the findings of this study will assist specialists in addressing some significant factors that may be considered in the operation of the insurance market, as well as the government in taking certain public actions for the consolidation and strengthening of the insurance market in Albania. The study's findings can be utilized to assess the link between economic development and the insurance market in the context of a regional area in the future.

Regarding the recommendations, we may underline the importance of the AMF determining the premium. This prevents economic entities from restricting, impeding, or distorting competition. The AMF has no authority to intervene in the decision of insurance premiums or to penalize these enterprises for pricing. The material's conclusions will aid this institution in carrying out its mission, which is to control competition. To enhance their performance and to invest in knowledge, all insurance businesses must cooperate, collaborate with the necessary state authorities, and implement new rules and processes.

6. Bibliography

- Adams, M., Andersson, J., Andersson, L.F. and Lindmark, M. (2009). Commercial banking, insurance, and economic growth in Sweden between 1830 and 1998. *Accounting, Business & Financial History*, 19 (1), pp. 21-38.
- Agjencia Kombëtare e Arsimit, Formimit Profesional dhe Kualifikimeve (2017). Material mësimor. Sigurime. Lëndës profesionale: "Sigurime", kl.13 (L-17-368-15). Sektori i Skeletkurrikulave dhe Standardeve të Trajnimit të Mësuesve.
- Ahmed, N., Ahmed, Z. and Usman, A. 2011. Determinants of Performance: A Case of Life Insurance Sector of Pakistan. *International Research Journal of Finance and Economics* 61: 123-128.
- Autoriteti i Mbikëqyrjes Financiare (2020). Raport vjetor 2020. Online në: <https://www.parlament.al/Files/Kerkese/20210514110640Raporti%20Vjetor%202020%20final.pdf>. (Accessed on 31 May 2022).
- Autoriteti i Mbikëqyrjes Financiare (2022). Analizë mbi përdorimin e monedhës kombëtare në tregjet financiare, nën mbikëqyrjen e Autoritetit të Mbikëqyrjes Financiare (Janar-Qershor 2021). Gusht 2021. <https://amf.gov.al/pdf/publikime2/RaportiiDeEurizimitjanar-qershor2021.pdf>.
- AXCO Global Statistics. 2019. "Albania: Non-Life (P&C) and Life Reports". <https://www.axcoinfo.com/>
- Babbel, D. F., (1981). Inflation, Indexation, and Life Insurance Sale in Brazil, *Journal of Risk and Insurance*, 48(1): 111-135.
- Banka e Shqipërisë (2022). Raporti vjetor 2021. Aksesuar online në: https://www.bankofalbania.org/Botime/Botime_Periodike/Raporti_Vjetor/. (Accessed June 16, 2022).

- Beenstock, M., Dickinson, G. and Khajuria, S. (1986). The determination of life premiums: an international cross-section analysis 1970-1981. *Insurance, Mathematics, and Economics*, 5 (4), pp. 261-70.
- Boadi, E. K., Antwi, S., & Lartey, V. C. (2013). Determinants of Profitability of Insurance Firms in Ghana. *International Journal of Business and Social Research*, 3(3), 43-50. <http://www.thejournalofbusiness.org/index.php/site/article/view/231/231>
- Browne, M. J., J. Chung, and E. W. Frees (2000). International Property-Liability Insurance Consumption, *Journal of Risk and Insurance*, 67(1): 73-90.
- Ćurak, M., Pepur, S., & Poposki, K. (2011). Firm and economic factors and performance: Croatian composite insurers. *The Business Review Cambridge*, 19(1), 136-142. <http://bib.irb.hr/prikazirad?lang=en&rad=553926>.
- Feyen, E., Lester, R. and Rocha, R. (2011). What Drives the Development of the Insurance Sector, Policy Research Working Paper No. 5572, World Bank.
- Hofstede, G., (1995). Insurance as a Product of National Values, *Geneva Papers on Risk and Insurance*, 77(20): 423-429.
- Lewis, F. D., (1989). Dependents and the Demand for Life Insurance, *American Economic Review*, 79(3): 452-467.
- Modigliani, F., and M. Miller, (1958). The Cost of Capital, Corporation Finance and the Theory of Investment, *American Economic Review*, 48(2): 261-297.
- Naqellari, A., Hoti, A. & Angjeli, G. (n/a). Tregu i sigurimeve në shqipëri, shkalla e përqëndrimit dhe pasojat në ekonomi. Konferenca e shtatë Ndërkombëtare, fq. 260-27. <https://docplayer.net/50056697-Tregu-i-sigurimeve-ne-shqiperi-shkalla-e-perqendrimt-dhe-pasojat-ne-ekonomi.html>. (Accessed on 31 May 2022).
- Park, S. C., and Lemaire, J. (2011). The Impact of Culture on the Demand for Non-Life Insurance, University of Pennsylvania, Wharton School Working Paper IRM 2011-02.
- Revista Monitor. Monitrimi i tregut të sigurimeve. <https://www.monitor.al/tregu-i-sigurimeve-u-rrit-me-16-per-vitin-e-kaluar/>.
- Serban, F. M., Cristea, C. & Stoenoiu, C.E. (2021). Market concentration in Romanian insurance industry. https://imt.uoradea.ro/auo.fmte/files-2021-v2/32_Florica%20Mioara%20Serban_Market%20concentration%20in%20Romanian%20insurance%20industry.pdf. (Accessed June 20, 2022).
- Skipper, H.D., 2001, Insurance in the general agreement on trade in services(American Enterprise Institute).
- Ward, D., and Zurbruegg, R. (2002). Law, Politics and Life Insurance Consumption in Asia, *Geneva Papers on Risk and Insurance*, 27(3), pp. 395-412.
- Webb, I., Grace, M.F. and Skipper, H.D. (2002). The effect of banking and insurance on the growth of capital and output. Center for Risk Management and Insurance, working paper
- Kugler, M. and Ofoghi, R. (2005). Does insurance promote economic growth? Evidence
- Kugler, M. and Ofoghi, R. (2005). Does insurance promote economic growth? Evidence from the UK. Money Macro and Finance Research Group, Money Macro and Finance (MMF) Research Group
- World Bank Report (2019). Albania Insurance Market Development. Examples of World Bank Projects. <https://openknowledge.worldbank.org/handle/10986/33173?show=full>.
- Zhu, S. (2013). A structural equation modeling analysis on solvency, operation and profitability of life insurers. <http://repositories.lib.utexas.edu/bitstream/handle/2152/22568/ZHU-MASTERSREPORT-2013.pdf?sequence=1>.