

Challenges facing by Micro-Insurance, as a new and unknown concept in the insurance market. Case of Albania¹ _____

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Abstract

Micro-insurance is a form of insurance, not being separated from traditional insurance, but which is mainly aimed at low-income individuals. This form of insurance applies to developing countries, where the level of population income is below the average level and where the low-income individuals occupy the highest percentage. The importance of micro-insurance in these countries applies to the fact that it includes in its packages, individuals who are excluded from traditional insurance schemes. Albania is also one of the developing countries, with low economic levels, where micro-insurance development is very important. This is also the focus of this work, highlighting the main factors that hinder the development of micro-insurance and the readiness of insurance companies or other interest parties in the application of micro-insurance. The analysis will be done through the drafting of a detailed questionnaire, addressed to 12 insurance companies operating in the country. Currently, there is no micro-insurance product in the insurance market and as such the need arises for a market analysis to study factors influencing and at the same time training and practices for insurance companies to get to know more about the term. AFSA, the entity regulatory has the main role in this process, which must undertake the strategy and practice to promote interest parties in the development of micro-insurance and the protection of low-income individuals. The results achieved in this paper support the hypothesis raised, where the factors that hinder the development of micro-insurance in the country are: high premium costs, the non-existence of a group of experts in the design of its products and the non-favourable level of technology and innovation.

Keywords: *Micro-insurance, low-income, premiums, developing country, insurers, AFSA.*

1. Introduction

In a very short time, micro-insurance has advanced far from something strange in the insurance world into a significant business opportunity in the long run. Who would have thought that low-income individuals would be so worthwhile to find, or such premiums that cost 50 cents a month would be profitable? Today more than thirty international intermediaries are offering micro-insurance products in different parts of the world and more others are planning to participate at the moment we are talking (Radermacher, 2011). Although there is no such a recipe for success, the key characteristics that are leading toward that way are differentiation, innovation and partnership. Micro-insurance is a concept whose time has already come (Norton, 2010). But still micro-insurance remains a new

and complex industry, which is still evolving, mostly because of the involvement of some stakeholders and the operations they undertake varies from country to country. The same problem occurs in Albania, related to the restrained initiative of insurance companies, intertwined with the main role played by the government and the regulatory entity, the AFSA.

1.1. Study Objective and Research Questions

The purpose of this paper is to highlight the importance of the application and development of micro-insurance in Albania, by studying in detail various literature specifying micro-insurance, concrete cases and comparable in analysis with our country to focus at all the obstacles and difficulties that are currently being encountered. Among the most important and current issues will be the impact of Covid-19 in the field of insurance.

The paper will be oriented through some research questions that follow as follows:

- Are high premium costs a factor hindering the application of micro-insurance in Albania?
- Is the lack of a group of experts, capable of designing products suitable for micro-insurance and the current situation in the country another obstacle?
- Does the lack of technology and innovation also affect the appearance of problems in the development of micro-insurance?

The null hypothesis that will be raised and intended to be proven in this paper is:

- The application of micro-insurance in Albania encounters problems and difficulties due to high premium costs, the lack of a group of experts capable of designing products appropriate to the situation and at the same time the current not very favourable stage of technology and innovation.

1.2. Methodology

This research is based on the design of a detailed questionnaire, divided into 3 different sections in such a way that each aspect of the study has a conclusion and examines in detail all the problems encountered by insurance companies in the country. First section includes general questions about insurance companies operating in the market, to understand more about the economic profile of Albania, and as well as to see if the market completes all the conditions to allow the development of micro-insurance. Second section includes direct questions about micro-insurance, and this is the most important part that gives the answers

to all our problem spotted since at the beginning. The third and last section is focused more on two of the most important events, that had a major impact in the economy and individuals lives in general terms, such as the earthquake in Albania and the Covid-19 pandemic. In this section we can see more about the importance of micro-insurance in such difficult times.

Despite the questionnaire, to complete the research there have been collected and analyzed information from different books, literatures, experiments, case studies in different countries and as well papers dedicated to micro-insurance.

2. Literature review

The term “micro-insurance” first appeared as a financial service within microfinance and then developed as a separate sector (Insurance Information Industry, 2021).

The concept of insurance dates back to as far back as 3,000 BC in China, where traders and investors shared the risk of losing goods when transporting abroad. A similar concept developed in Babylon, where the Greeks and Romans introduced the origins of life and health insurance around 600 BC, in which they established charitable institutions that took care of the families of deceased individuals. The first fire insurance company in England, was established after the occurrence of the Great Fire of London, around 1666 (Dror, 2019).

In recent years micro-insurance products have become a very important component of risk transfer of life, health, property and agro-culture in developing countries. At the end of 2013, it was estimated that micro-insurance products covered about 500 million people worldwide. (Churchill C. F., 2007) identifies micro-insurance as a form of insurance that is made through periodic payments or not, and that is addressed to individuals who do not have access to the traditional form of insurance. This is one of the reasons why micro-insurance is mistaken as the programs offered by the government or non-profit organizations to a certain part of the population in case of need (Wouter & Ombeline, 2017).

2.1. Design of Micro-insurance products

Micro-insurance is seen as the “next revolution” in addressing risk and vulnerability in developing countries (Morduch, 2006). Micro-insurance products differ from one market to another, adapting to the economic situation and needs of individuals, but a good micro-insurance product has at its core the key attributes of SUAVE, according to the study of (McCord, 2012) which are:

Simplicity– Product design, warranty terms and conditions, language of insurance policies and micro-insurance application procedures should be structured in the

simplest way possible so that all individuals can easily understand them.

Understandable- To clearly understand the whole process and if necessary, take additional education or training programs.

Availability- The objective of micro-insurance is for a given segment of the population, those individuals who have low and volatile incomes and as such offers the opportunity for all individuals to be able to access the products that offers in its packages.

Validity- Due to the low and volatile incomes of the very low-income percentage of the population, micro-insurance products require adjustments to meet the requirements of the target group of individuals.

Efficiency- Products and premiums must be kept at a low level for the product to be affordable by the target group.

2.2. Products offered by Micro-insurance and related features

The most common types of coverage that micro-insurance products offer in accordance with insurance principles include life insurance - often related to loans provided by microfinance institutions or MFIs, health insurance and property insurance. agricultural and livestock (Biener, Eling, & Schmit, 2014). Micro-insurance policies provide mandatory and voluntary coverage for the risk ranging from health to death, from theft to fire and from livestock to crops (Biener & Eling, An analysis of Problems and Potential Solution, 2012).

The most common products that micro-insurance offers are given as follows:

Life Micro-insurance and pension savings plans- this type of insurance provides protection the against financial consequences to the death of the head of the household or old age. Although life insurance is normally applied for long periods, the poor generally buy micro-insurance products for a short period, for example: 1 year, with no renewal guarante (ILO/STEP, 2006).

Health Micro-insurance- this type of insurance offers protection against the financial consequences of various diseases and motherhood. The financial consequences are of various natures: 1) direct medical costs for disease prevention, care and treatment, 2) direct non-medical costs and 3) indirect costs or opportunity costs caused by health diseases or motherhood for wasting productive time of both parties.

Micro-insurance of disabilities- this form of insurance provides coverage against the financial consequences of disability, whether temporary or permanent, depending on the contract. Disability will be called temporary when the loss of physical ability is recoverable and lasts for a certain period of time, usually up to 3 years.

Micro-insurance of property– this type of insurance includes assets, home, etc. Micro-insurance of property provides coverage against the financial consequences of damage or loss of personal assets, workplace and tools.

Micro-insurance of agricultural crops– plays a very important role in developing countries as mainly the poor can be completely dependent on the income they receive from agricultural crops. This insurance provides a financial compensation in case of crop failure that comes as a result of unforeseen events or happenings. A specific and innovative case in this part is the indexed insurance of atmospheric conditions (Rebekah Yore, 2019). One of the most successful products that micro-insurance offers, based on the strategies of insurance companies, tends to be life insurance coverage related to loans granted by MFIs (Churchill & McCord, 2012).

2.3. Micro-insurance product distribution models

The scope of financial intermediaries has changed significantly in micro-insurance, moving to a more integrated phase with a diversity of types of product distribution to consumers. Nowadays, technological innovation in financial terms and the growth of partnerships, has caused the distribution of micro-insurance products to change and grow dynamically (Access to Insurance Initiative, 2016). In micro-insurance, simplicity and distribution are the key to all business models. Michael McCord and Craig Churchill identified three distribution models used in micro-insurance (McCord & Churchill, Successful Business Models in Microinsurance, 2014).

Traditional Model– This model uses the power of the company to sell products. Insurance companies possess a great deal of control over the micro-insurance market and maintain customer privacy but due to direct market involvement, distribution, and administration costs increase significantly. Such a model has more disadvantages (Nef, 2012). MFIs and banks are seen as the ideal partners to create these volumes, as they have knowledge and experience in financial transactions with clients. Insurance companies choose their agent based on 3 aspects: the possibilities of achieving a contact with the client, reputation and loyalty. The main challenge in this model is the fact that the financial rewards for the partners are very low and thus creates a low willingness for the latter to sell products.

Community-based model– This model consists in the formation of certain groups, which have as specific: common interest, voluntary membership and not profit maximization. Group members are the owners and beneficiaries of micro-insurance policies. One of the members, who is the leader of the group should manage all the requests and collection of micro-insurance premiums.

2.4. Micro-insurance market and its functioning

Financial inclusion in the micro-insurance market is achieved when all customers can reach and sustainably use these services that have a great importance to their needs. The main purpose of financial inclusion is not only to ensure that low-income individuals are not excluded from the formal sector, but also to ensure that they use financial services regularly (Bester & Chamberlain, 2010).

Micro-insurance demand-side:

The demand for micro-insurance products will refer to all those individuals with incomes below the minimum level, who need micro-insurance products to feel safe and be protected from the innumerable risks that can affect them from the lack of basic needs (Liu, 2016). Jose Luis in an interview with ACCION in 2014 said: "If these individuals lose something, they have lost everything!" Micro-insurance is the right tool to overcome poverty and protect low-income individuals (USAID, 2006).

Micro-insurance supply-side:

The micro-insurance supply refers to all institutions and processes that are involved in the production and distribution of micro-insurance products, which create a distribution chain of micro-insurance products (Microinsurance Business Models, 2009).

Successful interaction of the functions of micro-insurance market participants is the key point to achieve successful results for all participants. **The main and most important reason that hinders the development of micro-insurance in many countries is the fact that insurance companies do not see any additional benefit to take over its application.**

The importance of technology, and innovation in Micro-insurance:

Micro-insurance faces many challenges that hinder industry from growth and development. Lack of quality data prevents efficient underwriting of micro-insurance products. Against the challenges faced in the development of micro-security, many innovative technologies have emerged. Payment in the form of applications and indexed insurance of atmospheric conditions are the innovative methods used (Chow, Biese, & Ng, 2019). Moreover innovation and technology are still at a very low level in various countries, especially in rural areas (Biener & Eling, An analysis of Problems and Potential Solution, 2012).

Supervision and regulation in Micro-insurance:

Insurance, for a long time, has been described as a business "dressed in the public interest" because of the role it plays in economic development and personal

security (Daykin & Cresswell, 2001). While regulators vary over time and in different jurisdictions, their primary purpose is the same: to protect consumers by ensuring safe and transparent insurance practices. (Klein, 1995) identified four regulatory activities: solvency, rates and policy forms, market practices including sales and underwriting, and other functions such as improving customer information (Access to Insurance Initiative, 2016).

2.5. Impact of Covid-19 on Micro-insurance

The COVID-19 crisis took its toll on the insurance industry, but how it affected particularly micro-insurance clients, who were forced to choose between paying premiums or food to live on. From an adage “never let a good crisis go to waste”, MiN at the last forum of experts raised the question of whether the pandemic had strengthened or undermined the micro-insurance business (MiN, 2020). For Peter Gross, COVID-19 has been a wake-up call, forcing insurers to make late changes. He said: “We need to offer valuable products that people know about, understand and stay with. COVID-19 shed light on this. “ Despite all the challenges micro-insurance remains a priority and if COVID-19 has highlighted one more thing, it has been to highlight those low-income individuals who need protection (Microinsurance Network, 2020). The pandemic had both a negative and a positive impact. Among the negative effects can be listed: significant decline in activities and GDP, delays in partnerships and new agreements, increased reputation risk, reduction of tourism due to travel restrictions, numerous suspended services, and many others. On the other hand, there have been positive effects such as: new opportunities to increase digitalization, strengthening solidarity, opportunities for innovation and resistance and, above all, awareness of the current situation in the country (World Bank Group, 2021).

3. Empirical Analysis

This research is focused in the problems facing by micro-insurance as a new concept, in tendency to develop and to has a succesful feedback in the market. In this section the reader will take the answers of every question and problematics raised in the beginning of this paper.

3.1. Economic profile, and the current state of the insurance market in Albania

According to (INSTAT, 2021), the economy in Albania experienced an increase in real terms of 2.11% compared to 2018 and an increase of 4.02% compared

to 2018 and 2017. Data for the first quarter of 2021, show that gross domestic product is estimated with an increase of 5.53% compared to the first quarter of 2020 (INSTAT, 2021) the insurance market holds the largest and at the same time most important weight in the development of the non-banking financial market in our country. The Albanian doctrine actually talks about the existence of insurance since the period before the Second World War (Naqellari, Hoti, & Angjeli, 2014).

FIGURE 1: Main Indicators of the Non-Life Insurance Market in Albania

Year 2021	in thousand ALL				
	January-June 2021	January-June 2020	January-June 2019	January-June 2018	January-June 2017
Gross underwritten premiums	8,187,240	7,052,684	7,445,506	7,128,541	6,821,537
Gross claims paid	3,411,138	3,813,734	2,346,911	2,162,830	2,533,458
Number of contracts signed	419,803	395,166	535,385	503,952	463,229
Number of claims paid	25,700	23,108	20,789	22,444	24,110

Source: (AFSA, 2017 - 2021)

The insurance market in Albania is developing, by making progress in terms of public awareness about the insurance culture, but again it is worth mentioning the fact that a significant percentage of the population does not use traditional insurance products at all. Based on data obtained from (AFSA, 2017 - 2021) during the period January-June, in general terms, the insurance market in Albania has increased by 17.53%, compared to the period January-June 2020. The data of 2020 compared to 2019, show more the effects of pandemic over insurance. Also during 2020 the gross claims paid have increased by 17.45% compared to 2019 and this significant increase came from the fire portfolio and additional risks following claims for damages caused by the two earthquakes that occurred during 2019.

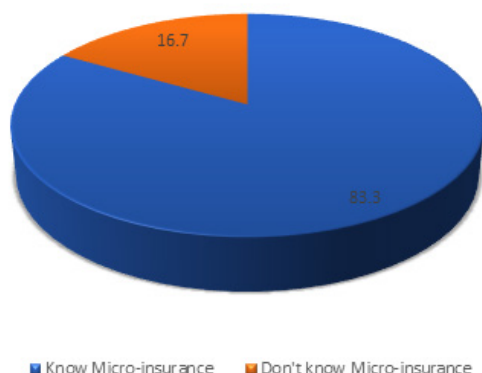
3.2. General analysis of insurance companies in Albania

Based on data collected by (AFSA, 2021), in Albania, are currently 12 insurance companies operating, of which 8 are non-life insurance companies and 4 are life insurance companies. Although it is obvious that Life insurance occupies 33% of the market, from the answers to the questionnaire it was noticed that life insurance packages such as health insurance for travel or accidents, are among the most requested by customers. The first insurance company received the authorization to operate in the market in 1999 and this year marks the beginning of insurance in the Albanian market. Most companies are characterized by the predominance of domestic capital, exactly 8 of them and the rest have more foreign capital than domestic. From the results of scientific research, it was noted that the insurance products that occupy the highest percentage are travel health insurance and compulsory motor insurance, which have the highest demand. Among other insurance products for which the demand is significant is agro-cultural insurance. From the latest data, it is worth mentioning that in Albania the first steps are being taken towards the development of the insurance market and this comes from the AFSA. The latter in collaboration with several local partners has undertaken the project for comprehensive voluntary insurance. The project is funded and supported by the Insurance Access Initiative, which together with the GIZ Global Leadership Academy is trying to make the necessary changes in our country. GIZ Regional Director, Mr. Hans-Jürgen Cassens, has emphasized “...*the big potential that micro-insurance will have in this place, if all the interested parties will join together in such a way to bring innovative solutions that are necessary and fundamental*” (AFSA, 2017).

3.3. Market research and results achieved in relation to Micro-insurance

“Micro-insurance”, from the word itself offers something smaller than what is normal and in Albania these needs must be met that no matter how small, they are vital and necessary for individuals. Vicki Vrint has an expression of hers that says: “All you need is a little!” From the data collected to the questionnaire 16.7% of the insurance companies did not know at all micro-insurance and the conditions of its operation. From the 83.3% of companies that are currently familiar with micro-insurance, 66.7% of them admitted that they have received training related to micro-insurance and are very familiar with the terms and conditions. Meanwhile the remaining 33.3% admitted that they know micro-insurance, but their staff has not done any training related to insurance.

FIGURE 2: Recognition of “Micro-insurance” by insurance companies



Source: Authors, 2021

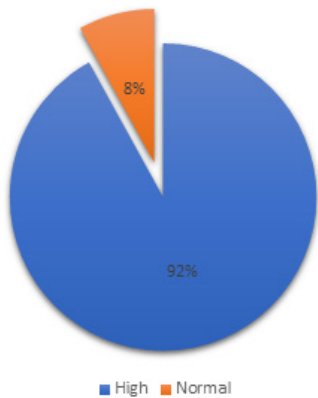
From companies that know micro-insurance and have done training, it turned out that after that they conducted a market study to analyze and understand the requirements of low-income customers in the country. Of the companies that conducted the market study, 40% of them said that low-income individuals have no information about micro-insurance and the remaining 60% said that low-income individuals are interested in insurance products. In addition, 33.3% say that the application will not be of interest to them and 25% of them remain neutral.

3.4. The main factors influencing the application of Micro-insurance

Among the key factors related to the application of micro-insurance we can mention: the economic situation, financial policies, and product design. From the answers received, we note that 45.5% of insurance companies claim that financial policies are favorable in the country to develop micro-insurance, while 27.3% of them deny this and do not see it as reasonable. The remaining 27.2% remains neutral. In reviewing the economic situation, we note that 63.6% of companies agree that the economic situation is favorable and suitable for micro-insurance to be applied in the near future, while 18.3% of them say that they do not find it favorable the economic situation to take on such an initiative. Again 18.3% of them remain neutral in response. Product design will play a very important role, as in most cases they penalize the application of micro-insurance. From the questionnaire data, more than 80% of insurance companies say they have support from the reinsurer. The rest of less than 20% somewhat agree with this statement. Among all these points mentioned, the main problem in this part and almost in

the whole paper lies in the calculation of the premium for such products, in which the very high cost of the premium hinders the market application of such products and for this reason fell agree over 90% of insurance companies, who do not see additional benefits.

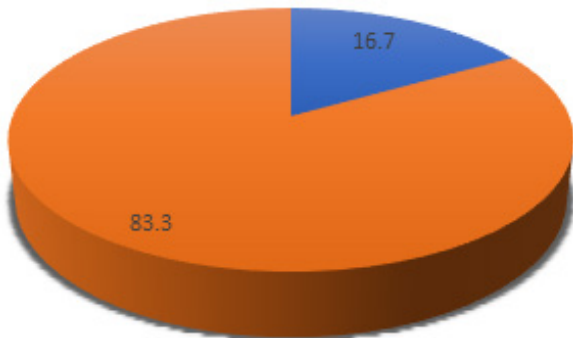
FIGURE 3: Calculation of premium of micro-insurance products



Source: Authors, 2021

The problem here is much more emphasized, perhaps and as much as could be expected and the need arises to create some strategies that can positively impact and can avoid this problem that hinders the development of micro-security. One of the fastest solutions suggested by the insurance companies themselves is to offer the products as “group” packages, in such a way that the costs are reduced and there is a marginal benefit from the package being offered.

FIGURE 4: Existence of a group of experts



Source: Authors, 2021

Finding a group of experts is another problem, in which about 83.3% of insurance companies agree, that in our country there is no such group that enables such efficiency. The remaining 16.7% say that current experts who design insurance products may be able to make such products for micro-insurance, but by analyzing in detail the economic situation and in relation to financial policies. Micro-insurance is a novelty itself and as such requires procedures that often need a considerable level of technology and innovation.

Product offering and distribution channels need new methods applicable in different countries. From the data collected, 67% of insurance companies say that the technology is not at the right level to promote the development of insurance and obstacles are expected in the future, while the remaining 25% say that it is favorable and 8% of them remain neutral. Moreover, Micro-insurance needs support, cooperation and above all a well-organized market.

AFSA is a regulatory body and plays a very important role in the insurance market. In the opinion of insurance companies, the AFSA should:

- (1) Launch a market study, involving all interests' parties, to have a look at market development opportunities.
- (2) Ensure that every insurance company offers reasonable premiums to clients who do not have high solvency.
- (3) Set price ceiling and floors, to avoid abuses in the market.
- (4) Identify insurance needs for low-income individuals.
- (5) Take steps to increase competition, to allow the development of the micro-insurance market and the products it offers.
- (6) Raise awareness of low-income individuals about the benefits of micro-insurance.

Meanwhile they emphasized the actions that them as an insurance company should do:

- (1) To develop as much training as possible regarding micro-insurance and its practices.
- (2) To design products specifically in the field of Agri-culture.
- (3) Create a balance between current market conditions, their interests, and the economic opportunities of individuals to provide quality services.
- (4) Participate in meetings with interests' parties, to develop a joint strategy.

3.5. Impact of the earthquake and Covid-19 on insurance and the poor population

According to the data collected from the questionnaire, all insurance companies agree on the point that the earthquake and Covid-19 were waking up call to pay more attention to the insurance market. During the earthquake period it

was noticed that insurance companies have successfully coped with the influx of damages left behind and moreover have indemnified their customers in record time. After the earthquake damage in total about 1900 cases have been reported, of which 270 are in the process of treatment. On the other hand, it was Covid-19 that focused not only on the insurance culture in general, but the insurance of low-income individuals in particular. Both events together showed that today more than ever this part of the population needs insurance and at this point all the insurance companies agreed.

4. Results and Recommendations

In this research the focus was on identifying the main factors that affect the development of micro-insurance in Albania, especially the negative aspects that hinder it. On the other hand, the impact of micro-insurance on the insurance companies themselves, their benefits and advantages, in addition to the obstacles to the creation of its products. During the study it was concluded that the key factors hindering the development of micro-insurance are: high premium costs, lack of a group of experts to design micro-insurance products and the level of technology and innovation not very favourable. This is because in these three factors, it was noticed by the data collected from the questionnaire that more than 80% of insurance companies expressed the same opinion regarding the not at all favourable aspect of these factors to develop micro-insurance in Albania. So we say that, *our null hypothesis cannot be rejected*.

At the end of the analysis of this research we are able to give some necessary recommendations as follows:

- (1) On the one hand the regulatory entity by name itself has the greatest responsibility where it must regulate and supervise every process from beginning to end.
- (2) On the other hand, insurance companies should be willing to join in the actions that the regulator undertakes to implement and give their opinions / suggestions regarding the situation to have a successful outcome.
- (3) They should also participate in the trainings that AFSA conducts.
- (4) After reaching a point of common interest between the regulator and the insurance companies, a group of specialists should be defined to design the products that micro-insurance offers.
- (5) If the feedback is positive, it is processed in the further steps of micro-insurance market development and if a satisfactory result is not achieved, the situation is analysed to understand the negative factors that have influenced.

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