

## INSURANCE SECTOR IN ALBANIA: HISTORY AND DEVELOPMENT

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### ABSTRACT

The insurance sector as industry has a very important role in developing countries' economies. In Albania, the first insurance companies can be seen before the Second World War, and after five decades absence, are opened again in 1991, after the change of the political system. During last two decades, insurance sector in Albania, has passed important transformation in all aspects, especially in the area of market liberalization, regulating the issue of ownership, insurance product development, regulators, etc. The purpose of this study is to analyze insurance sector in Albania, history, legal framework, development over the years and actual situation in the financial system of the country.

**Keywords:** Insurance, Albania, financial system.

### INTRODUCTION

The importance of insurance has an extraordinary weight these days. Insurance companies every day offer new products to customers, providing solutions to their needs, and thereby attracting substantial capital.

The insurance sector in Albania, has undergone a huge transformation over the years in all aspects, especially in the area of trade liberalization, property issues, insurance product development, regulators, etc. However, at certain times there have been some setbacks, such as the limitation to 40% of the shares that a foreign investor can control in an insurance company. This restriction valid until 2000, can be considered harmful to the economy and to the insurance sector in general and discouraging for foreign investors interested to invest in this sector. The insurance sector in Albania can be considered as small and undeveloped, but because of the failure to use the existing potential, the industry has a great potential to grow and develop in the coming years.

During the last years on one hand, through increased foreign investment and bringing the experience of foreign companies in the sector, and on the other one through the efforts of insurance companies and state regulators to fully harmonize the legal framework to that of European Union countries and adaptation to international standards valid in the insurance industry, there has been significant progress in the development of this sector and an increase in utilizing unused potential.

Also, in the insurance sector in Albania there is a strong competition between major insurance companies, which through innovation in new products are creating a more competitive environment and a promising future of this sector. Currently, Albania has 10 insurance companies, of which 7 are non-life insurance companies, 2 offer such service (of life insurance) and 1 (INSIG) offers both, non-life and life insurance. Also, SIGAL company has a licence to also offer reinsurance services. Compared to the previous year, the number of companies acting in the insurance market, during 2014, there has been a reduction as a result of the merger by acquisition of two insurance companies (Sigma and InterAlbanian), in a

single one. In Table 1. you can see the number of licensed insurance companies licenced by insurance classes during the period 2009-2014.

Table1. Insurance companies licenced based on insurance classes during 2009-2014

Denomination	2009	2010	2011	2012	2013	2014
Non-life insurance	7	7	7	8	8	7
Life insurance	2	2	2	2	2	2
Mix (Life and Non-life)	1	1	1	1	1	1

Source: Financial Supervisory Authority, annual report 2014, p. 7

Another feature of this sector is that 4 of all insurance companies, also have their offices outside Albania, in other countries. Specifically, INSIG, SIGMA, SIGAL also operate in Kosovo and Macedonia, while ALBSIG only in Macedonia, (Madani, etc., 2014:245)

The number of insurance companies in Albania, especially that of life insurance companies is relatively low compared to other countries in the region. Turkey has 25 life insurance companies, Greece and Romania 22, while Bulgaria and Croatia 16, (Madani, etc., 2014:245)

## LITERATURE REVIEW

The insurance sector as the industry has a very important role in developing countries' economies and as such is the focus of numerous studies which have completed research analyzing different aspects. Meanwhile, while some studies have tried to analyze the relationship between the level of development of the insurance industry and economic growth (Ward & Zurbrugg, 2000), other studies have attempted to determine the factors affecting the profitability of insurance companies. (Ahmad, etc. 2011; Kozak, 2011)

Hussels et al (2005) and Arena (2008) have conducted a series of empirical research to study the impact the economy has on life and non-life insurance and as a result, their studies have confirmed that they depend directly from the impact of economic development. Meanwhile, Outreville (2011) states that being part of the financial system, insurance companies affect investments and contribute to the economic growth of the country. In addition to the above researchers, even Kugler and Ofoghi (2005) and HAISS and Sumegi (2008) have suggested that positive impact of insurance companies on economic growth.

On the other hand, Nakata and Sawada (2007); Feyen et al. (2011) in their studies have found that the size and density of the population have a positive impact on the demand for insurance and (Ahmed et al, 2011) writes that the penetration of foreign insurance companies in a country increases competition, gives an impetus to the whole sector and affects the product development.

## AN OVERVIEW OF THE ALBANIAN INSURANCE MARKET

Based on the law No.52, date May 22nd 2014 "On the Activity of Insurance, Reinsurance and Intermediation in Insurance and Reinsurance" and law no.54, date May 29<sup>th</sup> 2014 "On the Financial Supervisory Authority", the insurance market is supervised by the Financial Supervisory Authority. The Financial Supervisory Authority (FSA) was created based on law no. 9572 date July 3th 2006 "On the Financial Supervisory Authority" as a public legal institution, an independent one that reports to the Parliament of Albania. This institution, as a supervisory and regulatory authority of insurance financial markets, securities and voluntary

private pensions in Albania, has a general responsibility to protect the interests of consumers and investors by guaranteeing the fulfillment of provisions. Apart from the two laws mentioned above, there are also 6 other laws that have to do with this sector and around 90 by-laws like regulations, directives and decisions of the Council of Ministers to regulate the sector.

## **THE HISTORY OF INSURANCE SECTOR IN ALBANIA**

The history of the insurance market in Albania is as old as the pluralis in this country. Even though there have been some initiatives before World War II, the first company was part of the market after the fall of communism. Since the '90, in Albania there were some insurance companies. Companies like the English one, "Lloyd's", which had offices in Durrës and Vlora and the Italian company, "SocietaAssicurazione Generale Fiume", were the first insurance companies to operate in Albania, (Kume and Xhuka, 2010:96). After World War II, in 1948 the Health Insurance Institute was created, while in 1954, the Health Insurance Institute merged with the Savings Bank.

After the fall of communism, in 1991, the above mentioned institutions were divided again. This is how the Albanian Insurance Institute (INSIG) was created, a trading company which had the state as a main shareholder, represented by the Minister of Finance. The establishment of the Albanian Insurance Institute (INSIG) is also the first step towards the opening of private insurance companies in the country. During this period, Albania marked progress in the sector, by becoming a member of International Green Card Bureau as well as establishing cooperation in the field of insurance and reinsurance, which allowed the creation of human resources with enough knowledge in the sector and also raised the standard of this market.

The first private insurance company in Albania is established in 1999. The company was called SIGMA and in the same year of its establishment, a second private company entered the market, SIGAL. The presence of these two private companies in the market offering non-life insurance broke the 8-year-old monopoly of INSIG and gave a new dimension to the sector, by bringing a new spirit, products and a competitive environment. After these two companies, in 2001, companies like INTERSIG and ATLANTIC enter the Albanian market while in September 2004, 5 other companies were established. They are INTERALBANIAN, EUROSIG, SIGAL (life insurance) and SICRED (life insurance). In 2012 ANSIG is also established in the market.

And while private companies were making huge profits with the passing of time in the market, INSIG, owned 100 % by the state, was sold in 2004 to IFC and BERZH, which took 39 % of the shares. This was the first step to the full privatization of the company, but was followed by many problems and failures. While the government was saying that within 2007 would sell all shares to private companies, SIGMA and SIGAL managed to attract foreign capital and brought new experience in the market through foreign investors.

According to the Competition Authority data, decision no. 71 dated January 29th 2008, this Authority approved the sale of 45.62 % of the shares of SIGAL Holding sh.a to the Austrian company Uniqa International Beteiligungs-Verwaltungs GmbH (Uniqa). A year later, according to official data again from the Competition Authority, decision no. 106 dated April 23rd 2009 of the Competition Commission, the sale of 87 % of the shares of Sigma sh.a to the other Austrian company Vienna Insurance Group, was approved.

Later, another company, Interlbanian, sold 51 % of the shares to the Greek company, ASPIS group, worth 2.2 million euros. (Kume and Xhuka, 2010:97). After that, in 2010, Vienna Insurance Group bought 75%+1 of the shares of Interlbanian, by expanding its presence in the Albanian market. The approval of this act was made by the Competition Authority with its decision no. 160, dated November 23rd 2010.

The next purchase within a 5-year-presence in Albania of VIG would be Intersig. The decision of Competition Authority, no. 199 dated September 15th 2011, shows that the sale of 75%+1 of the shares to Vienna Insurance Group has been approved. Three years later, in 2014, Vienna Insurance Group decided to merge two of the three companies, in which she was a main shareholder. Companies like Sigma and Interlbanian, would become one, thus passing the licence from Interlbanian to Sigma and by deregistering the company in the National Registration Centre (NRC). So, with decision no. 134 dated September 30th 2014, of the Financial Supervision Authority, Vienna Insurance Group ended the procedures of merging two companies in one and the new company that emerged from doing so was named, Sigma Interlbanian Vienna Insurance Group Sh.a. The merge of these companies was made to reduce operational costs, to improve services and performances and to increase security for customers. Even after the merge, VIG continued to be the main shareholder of Sigma Interlbanian Vienna Insurance Group Sh.a., owning a minimum of 85 % of the capital.

## INSURANCE SECTOR IN THE ALBANIAN FINANCIAL SYSTEM

The Insurance Sector in Albania has a relatively low weight in the Albanian financial system. According the data from the Bank of Albania and Financial Supervision Authority, during 2014, insurance companies made up only 1.8% of GDP. Meanwhile the banking system made up 91.7 % of the financial system in 2014. Analyzing the years, insurance companies did not mark a significant increase since 2009, when they made up 1.5% of the financial system to GDP. The percentage fell to 1.4 % in the year to come. In 2011, there is a small increase by 0.01 %, while in 2012, the increase reaches 1.6 % and will stay the same even during 2013. On the other hand, pension funds are almost negligible in the financial system in Albania. From 2009 to 2011, pension funds made up only 0.01 % of the financial system and the increase was 0.01 % for each year in the next 3 years. Although with a not very high percentage of the total, investment funds have increased steadily in the last three years in the financial system from 1.21 % in 2012, to 3.7 % in 2013 and 4.5 % in 2014. In table no. 2 you can see in detail the percentage of sectors of the financial system compared to GDP from 2008 to 2014.

Table 2. Percentage of sectors of the financial system to GDP in years

<b>Licensing and Supervising Authority</b>	<b>Financial system</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Bank of Albania</b>	Banking sector	76.7	77.5	80.9	84.7	89.6	90.5	91.7
	Non-bank institution	1.7	2.2	2.7	2.5	2.7	2.5	2.7
	Savings and loan associations	1.4	0.8	0.8	0.7	0.8	0.8	0.8
<b>Financial Supervision Authority</b>	Insurance companies		1.5	1.4	1.5	1.6	1.6	1.8
	Pension funds		0.01	0.01	0.01	0.02	0.03	0.04
	Investment funds					1.21	3.7	4.5

Source: Bank of Albania (2015: 46) and FSA (2014:6)

Even with a small increase the insurance sector has continued its dynamics of expansion during the last period. The total assets of these markets in September 2014 reached a value of ALL 89.2 billion, 6.4 % of GDP, or marking an increase of 22 % compared to 2013. The growth trend begun in 2012. A growth can also be seen even in insurance companies and pension funds, but from 2012, the expansion dynamics is bigger in investments funds. (FSA report, 2014). Even during 2014, the Albanian market of insurance had a significant increase when it comes to gross premiums which reached up to ALL 11.62 billion, an increase of almost 36.15 % compared to 2013 and an average increase of 8.95 % during the 5 last years. The insurance market continued to be oriented to the non-life insurance, which made up around 90.93 % of the gross premiums written in this market. While life insurance made up 8.83 % of the gross premiums written. During 2014, voluntary insurance made up 40.78 % and those mandatory 59.52 % of the total of gross premiums written in the insurance market. Insurance companies have a guarantee fund to invest in "target deposit" with a 1-year term in commercial banks and bonds. The guarantee fund for the market was ALL 4.67 billion in September of 2014. Assets in the insurance market have increased continually. For illustration, market assets on September 30<sup>th</sup> 2014 compared to December 31<sup>st</sup> 2013, increased by ALL 2.82 billion or 27.10%, with a higher growth rate compared to previous years. The capital of insurance companies has also increased. In 2014, it marked a growth of 5.68 % compared to December 31<sup>st</sup> 2013, as the result of keeping the profit of the period.

According to the Albanian laws, insurance companies are obliged to reinsure in a reinsurance company, the part of the risk which exceeds the allowed limit and this has to do with insurance contracts, where the value of risk exceeds the maximum coverage of 10% of the capital. From the market analysis for 2014, we can see that insurance companies respect such rule by reinsuring non-life insurances in companies like VIG Re, UNIQA Re, Munich Re, Hannover Re, Swiss Re, Partner Re, Scor, Lloyd's Syndicates, while for life insurance they use Scor Global Life. Meanwhile in Albania there is only one reinsurance company, which mostly reinsures insurance contracts of the group it belongs to.

The insurance sector in Albania has currently three main foreign shareholders which own shares in Albanian insurance companies. They are Vienna Insurance Group AG Wiener Versicherung Gruppe with headquarters in Vienna, Austria, Uniqa International Beteiligungs-Verwaltungs GmbH with headquarters in Vienna, Austria and the Albanian-American Enterprise Fund. According to the number of shareholders, 7.5 % are foreigners and 92.5 % Albanians. Meanwhile, classified based on their status, 77.5 % are individual shareholders, 20 % are companies and 2.5 % state shareholders, (FSA report, 2013)

## CONCLUSIONS

The insurance sector in Albania, despite having had its beginnings before World War II, due to the communist era, was suspended for almost 50 years, leaving the sector to resume the activity very late compared with other European countries. The recent introduction in the market of insurance companies but also other Albanian dynamics have had their impact and the sector is still underdeveloped, even though, seeing the trend in the last years, we can say that the sector is growing and developing. It is important to mention that only after the introduction of foreign investors in the market, it begun to grow as they brought a new dynamics and liveliness, but other economic factors, political and social, have hindered the rapid development of this sector. The presence of foreign investors in the market, the improvement of the legal base, the strong competition between companies, fast urbanization,

etc, are expected to enable a faster and a more robust development of this sector in the years to come.

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