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**ANALYSIS OF THE PREMIUM TREND IN THE INSURANCE INDUSTRY IN  
KOSOVO 2013 - 2017**

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**Sokol Berisha**

University "St' Clement", Faculty of Economics, Prilep, Republic of North Macedonia

sokolberisha@gmail.com

**Abstract:** Kosovo continues to be one of the countries with the most undeveloped economy in the region and with negative measuring indicators of the economic development, high unemployment, a deep negative commercial balance, and non-favorable macro economical politics to guarantee a faster development trend, although it has marked a positive economical increase in recent years but too insufficient to weaken poverty and decrease the unemployment rate. The insurance sector participates with only 3% in the Kosovo financial sector, except for its very symbolic participation, this industry is characterized by a very low degree of development and the main motive is to analyze the very slow trend of industry development, to identify the causes and factors that have influenced this segment to be so underdeveloped and of a very symbolic weight in the Kosovo economy.

The purpose of this paper is to explain the trend of insurance premiums on insurance industry in Kosovo, effect of foreign investments in this sector, also the positive implications in the competition in this market. The purpose of a study can be classified into two major categories; descriptive and explanatory.

For our case study, I have collected primary data by conducting closed interviews. I have interviewed 10 senior risk underwriter managers from all companies present in the insurance industry in Kosovo. Methodology and data collection for our research paper it is based on case study method, analyzing trend of premiums through case study, we have collected also secondary data or archival records from Central Bank Kosovo from specific documents: official yearly annual reports, annual financial stability reports. This is based on the reasoning that this data archive consists of official information collected, processed and published by the central bank of Kosovo as the oversight body of the financial system in Kosovo. Other source of secondary data used it is annual reports published on websites of the Insurance Companies.

In this paper I focused specifically on inquiring about the level of development of the insurance industry in Kosovo. I have also specifically explored and presented strategic orientation and detailed activities through which the premium structure in Kosovo could be changed in favor of voluntary insurance. Also another very important goal is the susceptibility of the relevant decision maker factors and the whole readers that the results of this analysis relevant findings to influence in order to sensitize the decision maker and readers for the situation and for the need of focus that this segment should be developed because it is one of the most important segments in the economies of developed countries or for an undeveloped country and economy that aims a strategic objective for a faster development.

**Keywords:** Insurance, Premiums, Claims

**1. INTRODUCTION**

The main purpose of this research is to highlight the trend of increasing the insurance premium and hence the reasons, causes and low level of development of the insurance industry in Kosovë. The development trend of financial market has its repercussions in other socio-economic developments. The operation of financial market segments affects the country's global economic. Increased quality management of deposits improves the confidence of customers towards insurance companies and increases the credit potential, which in turn directly impacts the improvement of investments and reduction of unemployment rate in host country. Increased investment initiatives also affect the growth of budget revenues and improve the tax system efficiency of the country. In this sense, consequences that may arise from the informality reduction must be accepted. These indicators are related to each other and have multiplying effect on numerous financial and economic outcomes.

After 2000, in Kosovë, the capital in the insurance sector was invested by several multinational enterprises (MNE). "Uniqa Group Austria", "Vienna Insurance Group" and "Sava re" from Slovenia. This paper focuses in the description of the competitive environment in the Insurance sector in Kosovë from 2013 to 2017 under the conditions of new entrances in market and the big increase of the competition. In this context, the analyses of this period and the findings contain a necessary base to argue with us that the increase of the real competition offers more qualitative services and products for a lower cost. It is a challenging environment for bold decisions by players implementing business strategies by coping with indicators, components and sub-components of the political, economic and financial risk, lack of opportunities to measure the level of risk and exposure scale from countries

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where they are planning to invest. The other part of the paper is organized as follows: In section 2 we will discuss about the literature of Kosovë and the region which has treated the problems of financial and insurance market and with focus on insurance premiums trends. Section 3 will present main Objectives of the article, Research questions, Research Method, Empirical data and analysis, and Conclusions.

## 2. LITERATURE REVIEW

The Western Balkans countries have undergone a major economic transformation over the past 30 years. Following the conflict in the 1990s, these countries set out to comprehensively rebuild and reform their economies. They have opened up to global trade and have become increasingly export-oriented, have expanded the role of the private sector, dismantled regulations to foster business development, and have begun to build institutions needed to support a market system. Banking, insurance and pension systems have been built up—literally from scratch in some cases—with the aid of foreign capital and know-how. The economic development in the Western Balkan countries is strongly connected with the European integration process. The insurance data show that the average growth rate of gross written premiums in the Western Balkan countries for the period 2010 – 2017 is positive, exceeding the negative average growth rate for the same period in the EU region and respectively in Western Europe and Central Eastern European sub regions. “To fully benefit from insurance, the Western Balkan countries need to have a regulatory and supervisory framework in place that fosters trust in the insurance industry. In that respect, there is a strong commitment for the gradual implementation of EU insurance directives into national legislation, the harmonization with the insurance core principles and the construction of independent, effective, and professional insurance supervisory authorities” (Poposki, 2018). After the 2008 global economic crisis which has happened because of the economic shrinkage on global scale, despite the worries for political and economic unsteadiness in specific countries, development of investments in Balkans has not been affected in a negative way (FULYA&YÜCE, 2016). “Only Kosovë is subject to “lower middle income” country definition among Balkan states having advantages such as economic reforms and regional position; the other states are subject to “high” or “upper middle” income country definition” (Uno&Sakuma, 2014). Foreign direct investments are decreasing almost fifty percent since Kosovë has declared its independence in 2008. Kosovë is faced with bribery, organized crime and judgement that get attention of foreign investments and negatively affected their investments. (KPMG, 2014).

Kosovë’s massive trade deficit is negatively impacting GDP growth, current account deficit, job creation and poverty decrease. The most important challenge for Kosovë’s economy is to decrease this deficit. “One method to do so is by forceful export promotion through FDI and joint ventures” (Aitken, Brian, G. Hanson, and A. Harrison, 1997). Kosovë remains the poorest country in South East Europe (SEE), with persisting high levels of poverty. According to the latest data, 29.7 percent of the population lives in poverty whereas 10.2 percent live in extreme poverty (Kosovo, Statistical Office of, 2011). According to the latest World Bank Doing Business Report 2015, (W.Bank, 2015). Contrary to expectations, FDI inflows declined after Kosovë’s declaration of independence in 2008. In 2013 Kosovë had an FDI percentage of 5% of GDP while in 2007 it was over 13% of Kosovë’s GDP (Badivuku,Zogijani, 2015). In particular, Austrian investors in Kosovë have reported that high corruption, insufficient support for foreign investment, and administrative procedures are some of the main problems they have encountered in Kosovë (Austrian.F.ChamberofCommerce, 2014). Kosovë’s nominal GDP remains low compared with neighboring economies. For example, the nominal GDP of Macedonia – with a similar population – is almost double that of Kosovë’s (EUR 7.4 billion vs. EUR 4.6 billion). A key challenge for Kosovë’s economy is its labor market. It has the highest unemployment rate in Europe, consistently over 45%. More than 30% of the population lives below the poverty line, on less than EUR 1.42 per day (European Commission, 2011) (OECD, 2013). These economic parameters encourage migration and informal economy in the country, which is considered to be around 1 billion euros and an uncollected fiscal evasion by collecting mechanisms in the amount of 300-400 million euros, annually (FriedrichEbertStiftung&Rinvest, 2011). Improving the business climate may help to attract new, job-creating foreign investment. The World Bank’s Doing Business 2017 ranks Kosovë as 60th among the 190 economies it evaluated. This is worse most other SEE6 countries: Macedonia (10), Serbia (47), Montenegro (51) and Albania (58) are each rated higher; Bosnia and Herzegovina (81) is lower (Cojocar, 2017). Considering all this cited literature in relation to the business environment in Kosovë we can highlight number of failures which directly is impacting political and economic risk rating components and subcomponents, like key factors of improving environment for doing business successfully in all sector of economy. High unemployment over 45%, extreme poverty, negative trend of foreign investments, unfavourable climate for foreign investors, organized crime and high corruption. All this is in line with my claim that a insurance sector so undeveloped, with unfair competition as well as with an unfavourable climate for foreign investors, not only in financial and insurance sector, but also in other

sectors of the economy, is an unenviable situation for Kosovë. Also, this situation is not in line with the immediate requirements for an accelerated economic development.

### 3. OBJECTIVES OF THIS ARTICLE

In this article we will consider important parts of the developments in the insurance industry in Kosovë. By the end of this paper, the reader will be able to understand and evaluate through the main research questions and sub-questions from the structured questionnaire, the importance of the main objectives of this paper, as follows:

- What is the level of development of the insurance industry in Kosovë, and
- How can the insurance premium structure change in favor of voluntary products?

### 4. RESEARCH QUESTIONS

- What is the trend of gross written premiums in Kosovë during the period 2013-2017?
- How can be changed the structure of premiums in favor of voluntary products?
- Loss Ratio, expenses and combined ratio in the Kosovë Insurance Industry 2013 - 2017?
- Kosovë compared to the countries of the region for gross written premiums 2013 -2017?

### 5. RESEARCH METHOD AND SOURCE OF DATA

In this paper we will use quantitative methods that emphasize objective measurement and statistical or numerical analysis of primary data collected through the questionnaire as well as processing the secondary statistical data through the application for collecting and processing the SPSS numerical data. Quantitative research designs are either descriptive or experimental. A descriptive study establishes only associations between variables; an experimental study establishes causality. The purpose of a study can be classified into two major categories; descriptive and explanatory. For our case study, I have collected primary data by conducting closed interviews. I have interviewed 10 senior risk managers (underwriters).The gathered data enabled us to observe, understand and analyze preconditions for competing and managing the risks also better understanding the trends of key indicators in the insurance industry of Kosovë. I have collected also secondary data or archival records from Central Bank Kosovë from specific documents: official yearly annual reports, annual financial stability reports. This is based on the reasoning that this data archive consists of official information collected, processed and published by the central bank of Kosovë as the oversight body of the financial system in Kosovë. Other source of secondary data used it is annual reports published on web site of the insurance companies.

### 6. EMPIRICAL DATA AND ANALYSIS

- The main indicators of Kosovë's economy

**Table 1. Kosovë Macroeconomic Indicator**

	2012	2013	2014	2015	2016	2017
Real growth of GDP (%)	2.8	3.4	1.2	3.3	3.5	3.5
GDP (€ million)	5,059	5,327	5,506	5,712	6,004	6,322
Consumption	2.6	2.2	3.9	3.2	3.3	3.4
Investment	-12.9	-0.3	0.9	5.1	3.4	3.4
Exports	0.5	2.5	1.9	3.6	1.5	1.9
Imports	-7.7	-1.5	3.9	4.2	3.5	3.0
registered unemployment rate ILO (%)	30.9	30.0	n/a	n/a	n/a	n/a
Average inflation (%)	2.5	1.8	0.4	0.3	1.4	1.6
Population (million)	1.8	1.8	1.8	1.9	1.9	1.9
GDP per capita (€)	2,799	2,935	3,084	3,055	3,164	3,282

Source: IMF Country Report No. 15/131

In 2014, the degree of financial intermediation, namely the ratio of financial system assets to GDP deepened, reaching 81.3 percent (79.4 percent in 2013). Total assets of the financial system reached a value of euro 4.5 billion in 2014 and 4.73 billion in Sep 2015 marking an annual increase of 7.4 percent, an increase that is mainly attributed to the growth of assets of commercial banks and pension funds, while the insurance sector and the microfinance sector had small contribution respectively neutral to the overall growth of assets. In 2014 - 2015, the structure of financial system assets remains dominated by the banking sector assets, followed by pension funds.

**Table2. Financial Market Structure system assets**

Description	2011	2012	2013	2014	2015	2016	2017
Commercial banks	8	9	9	10	10	10	10
Insurance companies	13	13	13	14	15	15	15
Pension funds	2	2	2	2	2	2	2
Financial auxiliaries	34	36	39	42	42	48	52
Microfinance Institutions	20	17	17	18	18	16	18

Source: CBK Annual Report No/33

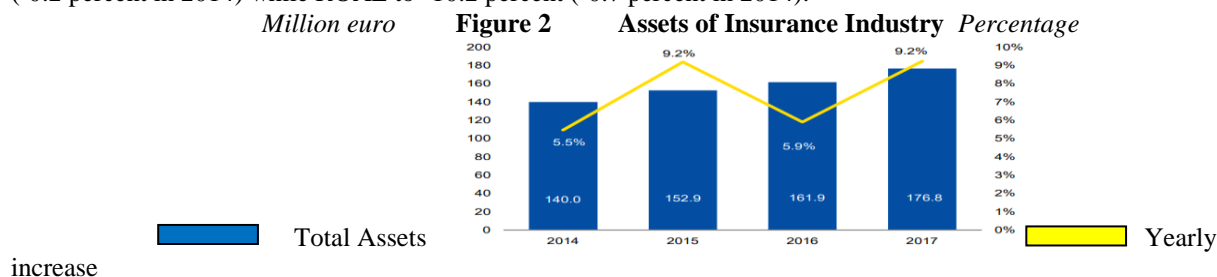
**Figure 1 Structure of financial system assets**

Structure of financial system assets	2016	2017
Commercial Banks	67.60%	66.00%
Pensions funds	26.20%	27.70%
Insurance Companies	3.20%	3.10%
Microfinance institutions	2.80%	3.00%
Financial auxiliaries	0.20%	0.20%
	100.00%	100.00%

Source: CBK Annual Report 2017

## INSURANCE SECTOR

The structure of the insurance sector is dominated by non-life insurance services, which represents 90 percent of the insurance market assets, while the remainder consists of the assets of the life insurance companies. In the local market there are 12 companies offering non-life insurance products, while three companies offer life insurance products. Total assets of the insurance sector in December 2017 marked an annual growth of 9.2 percent, reaching a value of euro 176.8 million. This growth, among others, was a result of licensing two new companies which offer non-life services insurance. Non-life insurances continue to represent the majority of the sector assets (90.2 percent), while the remainder (9.8 percent) is managed by life insurances. Until June 2015, nonlife insurance marked a significant loss of 2.8 million euro (316.0 thousands in June 2014), whereas life insurance marked a profit of euro 236.3 thousands from 429.2 thousands until June 2014<sup>84</sup>. The financial performance of the sector had an impact on the further deterioration of the profitability indicators such as ROAA and ROAE. ROAA deteriorated to -3.6 percent (-0.2 percent in 2014) while ROAE to -10.2 percent (-0.7 percent in 2014).



Source: CBK Annual Report No/39

## Insurance Market Developments

**New legislation - VAT (Law 05/L-037)** - Above other consequences starting from September 2015 the VAT Law was amended, where VAT differentiation has been done. Based on it (non-life) insurance transactions remain liable to VAT with change into rate of 18% from 16% it was before, except health and personal accident line of insurance which are excluded from VAT. **Insurance Law** - As a consequence of the new Law, the requirement for minimum capital for insurance companies will change from 3 million into 3.2 million euro. The required solvency for insurance companies is mandatory to be as same as the limit of solvency calculated based on the ratio of premiums respectively claims, whichever is higher, but not lower than minimum capital requirement. Therefore, the required minimum solvency margin of 600 thousand euro as of current regulation will change into 3.2 million euro based on this new Law. **Related Laws and Regulations - Health Insurance Law No 04/L – 249** approved by Assembly in April 2014 is not implemented yet. Nevertheless the government declared that this will start implementing by the end of 2016. This Law regulates the establishment, organization, operation, and financing of the public health insurance system; and the rights and obligations of the parties concerned. Health insurance will be organized and implemented as: I. Mandatory health insurance and II. Voluntary health insurance. Mandatory health insurance is the right and obligation of all citizens and residents of the Republic of Kosovë. **Bonus Malus Effect** - The bonus-malus rating system in the Motor Third Party Liability product anticipated in 2012 became effective from 1st July 2013. The implementation of this system is rewarding good drivers and penalizing bad drivers. Based on actuarial analyses done by actuaries for all the insurance companies during 2015 it is concluded that the effect of bonus-malus decreased the premium for 8.7% in 2014 while it was projected to decrease for 12% in the year 2015 and 15.3% in the year 2016 compared to base premiums. **Border Insurance Premium** – During 2015 the Border Motor Liability Insurance managed by Kosovë Insurance Bureau passed some changes in the value of premiums and also in the

<sup>84</sup> CBK- Quarterly Assessment of the Economy No. 11, Q II/2015

manner of sharing of these premiums into insurance companies. By mid of 2015 the Border Insurance Premiums which were differentiated for vehicles from Serbia/Montenegro and other countries, changed. Border Insurance Premiums dropped for approximately 50%, while due to Memorandum of Understanding between Serbia and Kosovë for recognition of mutual Motor Liability Insurance, this category of border insurance policies ceased to be issued. Taking in consideration effects of both changes the Border insurance income it drops for approximately 56% during year 2016.

**Collective Contract** -Implementation of Collective contract is foreseen to start implementing in coming years. This Collective contract will affect the expenses of each economic institution. Based on calculation and forecast the effect of implementation of this contract will increase our expenses the category of contributions for 90%.

**New entrances in the market** - In 2015, two new nonlife insurance companies entered into the insurance market. Two of these are “Scardian” and “Prisig” which are with domestic capital. Another insurance company “Dardania” which was with domestic capital it was sold to Albanian insurance company “Eurosig” under which name it is operating now in Kosovë. Due to these new entries, there are fluctuations in the agents, increase of acquisition cost which brings an aggressive and unfair competition between insurance companies. **Changes in tax system related to insurance-** Unlike all other corporations in Kosovë which are taxable on corporate tax with rate of 10%, the insurance companies unfairly are taxed on 5% of written premium, irrespective of profit/loss of the period. The comparison of different tax system of neighbor countries is elaborated, the negative effect of this tax system is analyzed and also a couple of modifications of it are proposed to Ministry, as: a) exemption of VAT for all insurance policies b) application of income corporate tax to be calculated on profit rather than as it is now 5% on written premium; c) Tax on insurance premium which can be introduced at the time of the abolition of VAT, which in terms of the revenue of the government budget will replace the mass of the latter.

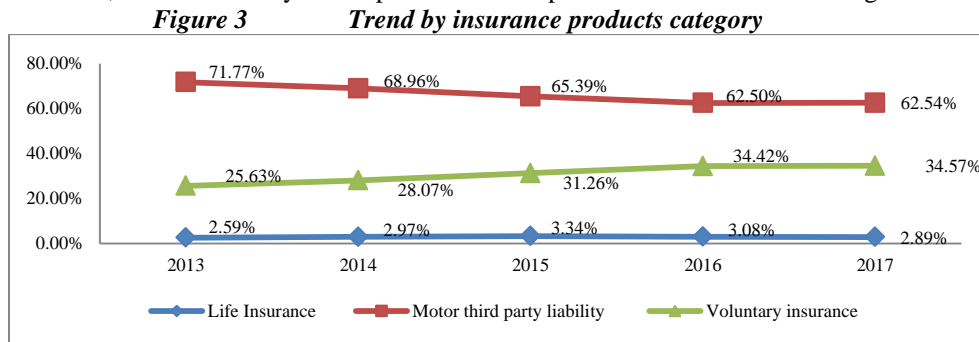
Any of these changes which might materialized after 2016, will have a positive effect into insurance companies:

- Remove of VAT will not change, projection of premiums, as it is not included into premiums. It will increase operating expenses for insurance companies approximately 3%.
- If the tax on insurance premium will be applied then it will done as an indirect tax, so will have no effect on profit.

From May 2015 CBK allows insurance companies to invest in other financial instruments as Government Bonds of Republic of Kosovë. Until then it has been required by law not to invest in other forms than deposits. Since 2013 banks in Kosovë are over liquid. Due to that offers for deposits fell from 4 % yearly to 0,01 % yearly. Through investing in Kosovë Government bonds it was a chance also achieving a diversification of the portfolio and a slight rise of interest income during years.

### 6.1. Trend of gross written premiums in Kosovo 2013-2017?

Figure no. 3 graphical presentation of the gross written premium by products in the insurance market in Kosovë for the period 2103 - 2017, in order to analyze the specific items of products as well as the moving trend over the years.



*Source: (CBK, Annual Reports, 2013-2017)*

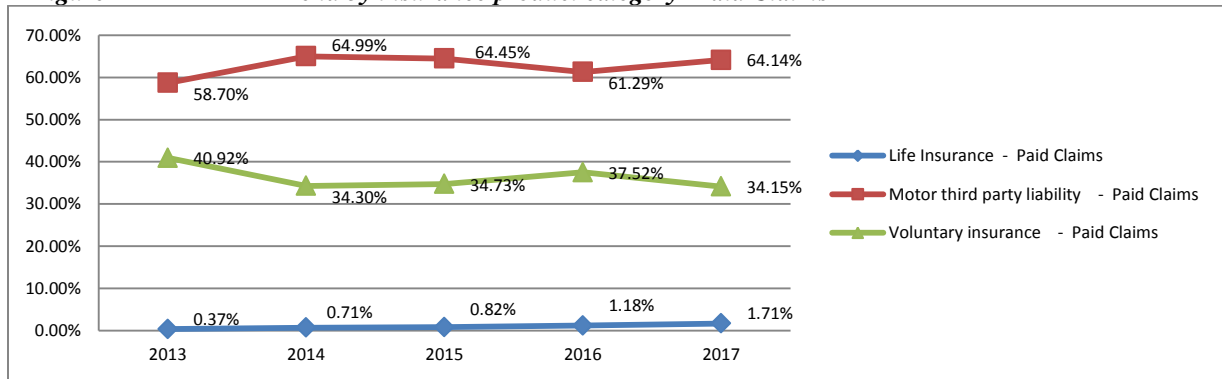
As seen in Figure 3, we have grouped the products into three categories, life insurance, motor third party liability and voluntary insurance, and through this presentation we see that with the slow growth trend of voluntary insurance participation in the overall participation of written premiums in Kosovë which by 2013 was 25.63% and by 2017 it reached 34.57%, the participation of the compulsory insurance product Motor third part liability continues to be very high in 2017 with 62.54% and Life Insurance with a small, almost symbolic participation of 2.89% in 2017.

### 6.2. Trend of paid claims in Kosovo 2013-2017?

Figure 4 we presented trend analysis for the three main categories for the period 2103 - 2017, for the purpose of analyzing the moving trend over the years.



**Figure 4** *Trend by insurance product category- Paid Claims*



Source: (CBK, Annual Reports, 2013-2017)

As seen from the result in Figure 4 in which we grouped the paid claims into three categories, life insurance, motor third part liability and voluntary insurance. Through this presentation we see that structural representation is almost the same as in gross written premiums and third party liability claims with 64.14%, while paid claims in voluntary insurance with 34.15% and life insurance with 1.71%.

### 6.3. How can the insurance premium structure change in favor of voluntary products?

The strategic orientation and objectives that must be met by participants in the insurance industry in Kosovë are:

- a) Developing new potential markets
- b) Developing new distribution Channels
- c) Focus on the target group and develop the most efficient approach to them
- d) Improving non mandatory sales Net
- e) SME clients 1) Property insurance 2) Health insurance 3) Cross selling

The following strategic goals for Insurance Companies over the next years should be the organizational response to the important issues identified in macro and micro environmental analysis and the strategic planning process of management team. These following goals provide a roadmap for delivering the strategic direction.

- a) To improve position and differentiate itself in the insurance market
- b) Continual development of Sales Network
- c) Develop new Insurance Products and new sales channels
- d) Developing the Human Resources of the Company for establishing and maintaining a sound company policy of recruiting, retaining and developing the staff.
- e) To ensure that our shareholders achieve a long term, competitive, stable return
- f) Increase Profit

**Continual development of the Sales Network:** to meet new market developments -providing professional services, reaching sales targets as well as business objectives. It is imperative that continual invest in the education of the sales network and recruiting sales professional with excellence records.

**Development of new Insurance Product and new sales channels:** A significant factor in ability to grow and remain competitive will be ability to anticipate changes in technology, industry standards and customer preferences, and to successfully develop and introduce new products. The priority will be given in development of the group and individual health insurance products, insurances for personal accidents, as well as other products. **Upgrading a**

**Human Resources Policy:** Human Resources reaffirm its commitment and desire to continue to serve as a strategic partner within the company and to continue to build a strong, united team. HR should continue to serve as consultant, partner, and advisor to all departments. **Profit Increase:** The ability to generate profit is crucial to the survival of each business. It is about more than just making money - it's also about the ability to use surplus funds to invest in and grow the business in the future. To ensure long-term success and forward-thinking approach recognizes the need to adopt a more customer-centric approach: getting to know customers better, improving customer service, and optimizing customer value through targeted cross-sell opportunities. **Effective Distributions:** While agent-based sales continue to dominate the Insurance Market, strategic objective is the profile ration of cost effective distribution channels, particularly in the Non-MTPL Business Lines. Main focus for the upcoming years is the development of new sales channels on insurance company such as cooperation with banks, schools, telecoms etc. **Efficient Claims**

**Servicing:** Retaining existing customers is always more cost-effective than acquiring new ones, as well as, for property and casualty (P&C) Business Line in particular, the claims experience is pivotal to customer retention. Through automation of the claims management process, and standardization of processing methodology, the

Company aims to shorten claims settlement cycles by minimizing manual intervention and enabling straight-through processing (STP) and from Sales Support (Claim Processing and Claimant Relationship Management).

**Development in underwriting**

- Establishing a product cycle management
- Establish and maintain a Methodology of Action while performing the act of soliciting insurance coverage, evaluation and underwriting risk and contracting an Insurance Policy
- Methodology of Action while evaluating and renewing an Insurance Policy

Product Evaluation should be an important step in order to understand what products perform well and where improvements are needed. In order to do this each product will be measured according to: **Customer Base:** This analysis will involve analysis of how many customers possess particular product and what are the chances of further enforcing product adoption amongst other customers, thus contributing in increased and stable customer base.

**Revenue:** Analysis of revenue strength of each product will be made. Products need to be ranked according to revenue base and products which do not perform well financially, and at the same time do not contribute to the overall customer base need to be ceased or improved to be more attractive. **Maturity:** Analysis of products maturity is needed to understand where products stand. Some products can be in developing or maturity phase and it is important to know what phase they are in order to understand the marketing strategy that needs to be adopted.

**Implementation of call center, the aim of the call center project is to:**

**1. Sales Assistance:** a) Information access b) Underwriting process administration c) Servicing distribution channels

d) Market Research e) Quality of Service Assertion

**2. Claim Assistance:** a) Information access b) Confirmation c) Registration

**The process of improvement and planning achievements:** a) Regularly measurement of result b) improve reporting c) increase responsibility d) increase communication ability, e) sharing experience, f) creating positive climate and team work culture, **Key to success:** Responsibility; Culture of Company; Motivation; Reporting; Knowledge; Understanding environment; Professional communication ; Effective decision making

**6.4. Loss ratio, expense ratio and combined ratio for insurance industry in Kosovo 2010- 2017?**

*Insurance Industry Financial Ratios:*

$$\text{Loss Ratio} = \frac{\text{Incurred Losses (incl. loss adj. expense)}}{\text{Earned Premium}}$$

$$\text{Expense Ratio} = \frac{\text{Underwriting Expenses}}{\text{Written Premium}}$$

**Combined Ratio** = Loss Ratio + Expense Ratio

*Table 3: Results of Financial Ratios on Kosovë Insurance Industry – Non life insurance*

Non Life insurance	2010	2011	2012	2013	2014	2015	2016	2017
<b>Loss Ratio</b>	49.00%	44.54%	46.81%	44.21%	44.67%	58.56%	76.77%	37.61%
<b>Expens Ratio</b>	64.14%	60.41%	61.27%	61.69%	57.90%	50.88%	58.78%	51.18%
<b>Combine Ratio</b>	113.14%	104.95%	108.08%	105.90%	102.57%	109.44%	135.55%	88.79%

*Source: CBK Annual Reports 2010 – 2017*

By reading these indicators from Table 3, in 2010, we can see that the insurance industry in Kosovë, the non-life insurance segment, has been characterized by a very high Combine Ratio ranging from 113.14% in 2010, driven by very high Expense Ratio that has reached 64.14% that in terms of a normal business, this indicator would not have to go over 35%. This impact has continued throughout the years 2010 - 2017, with the lowest point in 2015 with 50.88%. Also Loss Ratio or expenses incurred by concentrated and unpaid claims over periods, under normal procedures, but realized as a result of pressure by the supervisory authority has increased the Loss Ratio indicator in 2016 at 76.77% and this has resulted in a very high 135.55% Combine Ratio which cannot be covered by investment income, therefore, characterizing the insurance industry with unsustainability, non-liquidity as well as other parameters that hinder the focus on the development of voluntary insurance segment. This is largely influenced by the compulsory insurance product segment MTPL, which accounts for the major part of the 62.54% portfolio structure.

**Table 4: Results of Financial Ratios on Kosovë Insurance Industry –Life insurance**

Life insurance	2010	2011	2012	2013	2014	2015	2016	2017
Loss Ratio	14.34%	36.23%	39.97%	53.89%	45.15%	42.97%	52.23%	60.52%
Expens Ratio	92.01%	67.60%	60.63%	51.21%	42.55%	56.28%	45.89%	52.02%
Combine Ratio	106.35%	103.83%	100.60%	105.10%	87.70%	99.25%	98.12%	112.54%

Source: CBK Annual Reports 2010 - 2017

By reading the indicators in the life insurance segment we also see that the expense ratio impact with 92.01% has been decisive in the highest growth of the Combine Ratio with 106.35% which is also characterized by the fact that 2010 marked the beginning of the activity of life insurance companies. Despite this fact, the high level of expenses that is following this segment of the insurance industry is having impact in the reduction in profitability and the reduction of customer confidence.

### 6.5. Kosovo compared to Western Balkan countries – insurance industry

The following presentation will provide an overview on the insurance business challenges and the perspectives for six Western Balkan countries (Macedonia, Serbia, Montenegro, Albania, Kosovë and Bosnia and Herzegovina) by identifying the key driving factors from the insurance supply and demand side.

#### Social Challenges - Poverty Line & Youth unemployment % labor force age 15-17 (2010-2017)

	Albania	Bosnia & Herzegovina	Kosovo	Macedonia	Montenegro	Serbia	EU	Germany
	2012	2011	2013	2015	2013	2014	2013	
Population below poverty line	14.30%	17.20%	30%	21.50%	8.60%	8.90%	9.80%	
Youth unemployment % of labor force age 15-27 (2010-2017)	39.80%	62.30%	57.70%	47.30%	37.70%	43.30%	22.70%	7.20%

Source: World Bank World Development Indicators

Abovementioned indicators point to a very important indicator for the development of the insurance industry as we have the highest rate of extreme poverty in the region, marking 30%.

#### Insurance market overview

2017	Albania	Bosnia & Herzegovina	Kosovo	Macedonia	Montenegro	Serbia	CEE	EU
Insurance penetration	1.03%	2.18%	1.36%	1.45%	1.94%	2.08%	2.60%	7.19%
Insurance density (EUR)	42.35	99.61	46.82	70.44	131.25	111.78	299.00	1,943.28
Number of insurance companies	11	27	15	16	10	17		
% in financial sector's total assets	0.10%	5.60%	3.00%	3.50%	4.70%	6.30%		

Source: S&P Global; 2017: Xprim (S&P Global; 2017)

#### Western Balkan Countries - MTPL Overview 2017

	MKD	MNE	SRB	BIH	ALB	KOS
MTPL share	51.91%	53.01%	47.12%	58.43%	65.72%	64.50%
Vehicles per 1000 citizens	320	246	219	194	178	333
Average GWP (EUR)	118	146	110	152	136	133
Claim Ratio	46.25%	36%	38.91%	48.19%	26.84%	41.27%
Expense Ratio	48.30%	43.00%	26.19%	33.45%	64.86%	53.64%
Combine Ratio	94.55%	79.00%	65.10%	81.64%	91.70%	94.91%
MTPL liberalization ?	NO	Yes	No	No	Yes	No
In force		Aug-17			Aug-11	
Plan for mtpl liberalization	Yes	Yes	Yes	Yes		Yes
Centralized system for mtpl insurance policies and claims	Yes	Yes	Yes	No	Yes	Yes
Harmonization with min Sum insured (MID)	No	No	No	No	No	No
Green Card - single Premium?	Yes	No	No	No	Yes	Yes

Source: Insurance supervision authorities of selected countries

## 7. CONCLUDING REMARKS

In this paper, we have addressed topics such as premium trend, how to change the premium structure in favor of voluntary insurance, the claims/premiums ratio and the combined ratio. The limitation of this paper is in the segment that is not treated as is the financial health of insurance companies in Kosovë, the elaboration of financial statements



and other financial indicators such as technical reserves and solvency rate analysis which may be the target of another study with a special focus.

The in-depth analysis of all these addressed indicators makes us understand that the entire development of the insurance market in Kosovë from 2000 onwards despite the new market entries of large groups branches has not been characterized by genuine strategies with a tendency of exploring new market segments continues to be influenced by non-strategic approaches which personify businesses that aim to do business on long-term paths and that have a motto to change the way of thinking that is presented through CRM Customer Relationship Management and orientations which represent this approach of doing business by moving from transaction value to life-time value and from product life cycle to customer life cycle. If we say that we need to create positive climate to attract foreign investment, this does not mean that we should provide or maintain the market share for market participants, it remains the task of strategic orientation and decision-making of investors who normally do all the tests before deciding whether or not to enter a market. The commitment to create an attractive environment for business initiatives, aside from being a continuous challenge of underdeveloped economies, should also be a strategic goal, but when talking about the financial and insurance sector, it is important to analyze the impact of the activity of financial institutions in the national economy because ultimately they are not present in an economy simply to maximize their profits, but also to accelerate the general development trend in one countries economy.

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