KEY FACTORS LEADING TO HIGH MTPL INSURANCE CONCENTRATION IN ALBANIA AND SUGGESTIONS FOR CHANGE

Ervin Koçi
Institute for European Studies, University of Tirana, Albania, erv.koci@gmail.com

Abstract: The insurance market in Albania is notably underdeveloped compared to the Western European countries. As this is also the case for most other Western Balkan countries, it is a phenomenon that leads to a high concentration of compulsory insurance products, compared to voluntary ones. The most common compulsory product is MTPL insurance, which takes up the overwhelming share of the insurance portfolios for the Western Balkan countries; however, this fact seems to appear rather more pronounced for the Albanian market for various reasons, the most relevant of which this paper means to delineate. As the high concentration of MTPL insurance has been a persisting issue in Albania during the last decade, as well as in several neighbor countries, the nature of these markets remains underexploited, which is a clear sign that there is potential for growth and room for existing and new voluntary insurance products to thrive. A meek indicator that attests to the underdeveloped nature of the insurance market in Albania, is the low number of the companies trading life insurance and their meager market share, compared to the companies trading non-life insurance. Aside from a slowly developing economy, remarkably low market penetration and GWP-to-GDP ratios are direct indicators of an undersized insurance market in Albania. As the insurance companies might have lost incentive and feel comfortable with the current state of the Albanian market, the Government and the Supervisory Authority would have to take it upon themselves to create incentives for the public, in order to enhance the development of the insurance market. Encouraging the public awareness of insurance, tax-relief and establishing consumer trust in insurance market, would certainly be expected to lead to increased popularity of and interest in voluntary insurance products among the public. In this way, not only is the imbalance on the insurance concentration counteracted as a result, but less financial burden is placed on the consumers in general and even the Government, in case of adverse occurrences. For one thing, insurance should not be perceived as an obligation stipulated by law or as business that benefits only the insurers, but it should primarily be regarded as a need or necessity that provides protection against perils, offering peace of mind to the insured, while preserving their financial stability, should any incidence take place. For this, reason, the paper also intends to provide valid suggestions on how to tackle the main underlying factors contributing to high MTPL insurance concentration in Albania. Ideally, this would be achieved through effective involvement of the Government and the Supervisory Authority, striving to promote a positive change in the insurance market. Given the similar reality the insurance markets in the Western Balkan share in common, these suggestions may also be regarded as beneficial by other countries in the region, suffering the same condition.
Keywords: insurance, MTPL, high concentration, financial literacy

1. INTRODUCTION

It goes without saying that the Western Balkan countries are behind in many aspects of development, which is attested by lower levels of income, lower level of income and less financial development than their Western European counterparts. All this lag in advancement is also reflected in the insurance market development as well. For what is worth mentioning, most of the Western Balkan countries are not part of European Union and in addition, all of the latest are not compliant with Solvency II, as far as the concern regarding insurance goes. Most of the Western Balkan countries are characterized by underdeveloped financial markets for the most part and Albania is no exception. It is our feeling that there are several indicators, in particular, that point to a weak insurance market, which are shared among the Western Balkan countries, probably due to similar political and socio-economic circumstances. In this paper, we will focus on our assumed indicators, which we feel are the most significant in pointing to an underdeveloped market, and which we believe are common for the other neighbor countries in the region. Furthermore, we will go over some indicators that we logically deem as independent factors, which are in turn reasonably thought to affect the former. In this manner, we will try to put to test if our logical assumptions regarding the factors affecting the insurance market development hold out. We will conclude with some recommendations on what could possibly be done, in order to improve our insurance markets and reduce the effects of the adverse factors. For the purpose of this particular work, the countries considered in this simple study are: Albania, Kosovo, Montenegro, Macedonia, Serbia and Bosnia and Herzegovina. Because Croatia and especially

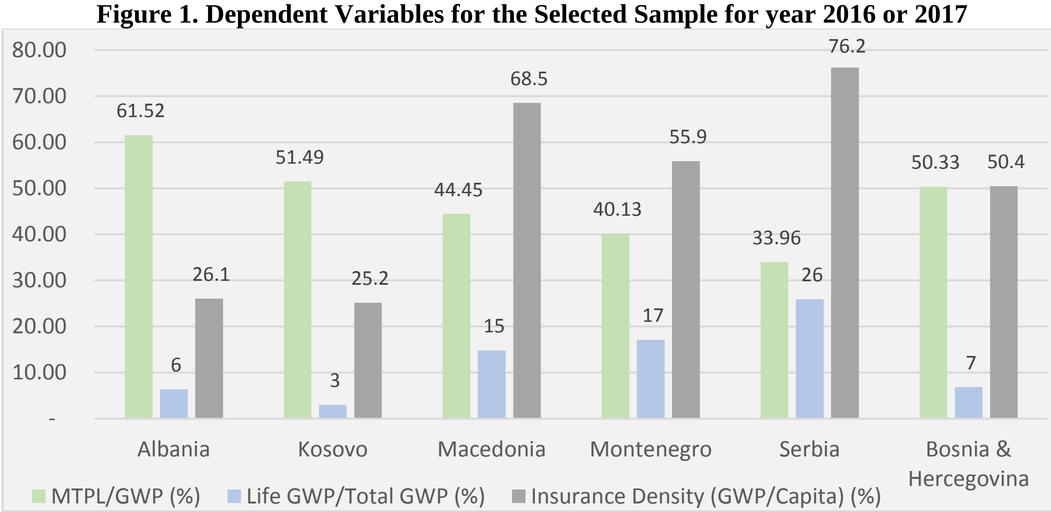
Slovenia have considerable differences compared to the rest of the Western Balkan Countries, such as being part of the European Union, being notably more developed economically, being Solvency II compliant, being characterized by significantly higher wages etc., are not included in this study.

2. THE ANALOGY

The Dependent Variables: It seems as any developments in insurance market in Albania revolve around MTPL. By reasonable thought, any undeveloped insurance market survives because of compulsory products, since consumers tend not to purchase voluntary insurance products. This fact is typical for Albania, where the prevailing business in insurance is selling MTPL, but this situation, as shown in the graph below, is common for the neighbor countries as well, despite the fact that somewhere it is more pronounced and somewhere less. Referring to Figure 1, it is clear that Albania has the highest MTPL concentration, followed by Kosovo and Bosnia and Herzegovina.

Due to the reason that several Insurance agencies or authorities have not yet published the official annual reports for year 2017, the most recent official data available was used, therefore for some countries these data belong to year 2016 and for a few, to year 2017.

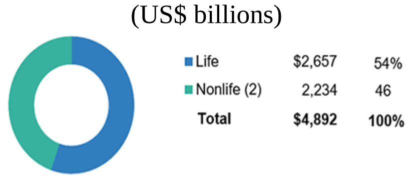
Figure 1. Dependent Variables for the Selected Sample for year 2016 or 2017



Source: Albanian Supervisory Authority, Central Bank of Kosovo, Macedonia Insurance Supervision Agency, Montenegro Insurance Agency, National Bank of Serbia, Insurance Agency of Bosnia and Herzegovina

Another reasonable way to point out an underexploited insurance market is to look at Life insurance GWP to overall GWPs. In prospered economies, or otherwise developed financial markets, life insurance GWPs comprise the majority of the insurance portfolio, as is clearly depicted in the graph below. In this regard, one cannot but agree that a low life insurance GWP composition of an insurance portfolio means at least a deviation from the entire world's balance. In Referring to the graph above, in regards to Life GWPs indicator, Albania is ranked second, after Kosovo for having the lowest share of Life GWPs, followed by Bosnia and Herzegovina, while Serbia has the highest share of Life GWPs.

Figure 2. World Life and Nonlife Insurance Direct Premiums Written, 2017 (1)
(US$ billions)



(1) Before reinsurance transactions.
(2) Includes accident and health insurance. **Source:** Swiss Re, *sigma*, No. 3/2018[220]

[220] Accessible at: http://www.swissre.com/library/publication-sigma/sigma_3_2018_en.html

Besides the high MTPL and low Life Insurance GWPs concentration, there are two widely and universally accepted indicators intended to assess the state of an insurance market, we would like to also focus on:

1. $Insurance\ Penetration = \frac{\text{Gross Written Premuims}}{\text{Gross Domestic Product}}$

2. $Insurance\ Density = \frac{\text{Gross Writen Premiums}}{\text{Population}}$

The factors we feel best attest to the development of an insurance market, thus far, outlined above, are summarized in the chart below. By what can be concluded thus far from the observations, we can state that Serbia, followed by Macedonia and Montenegro appear to have better insurance markets (lowest MTPL share, highest Life Insurance share, highest insurance density and highest penetration), while Kosovo, followed by Albania and Bosnia and Herzegovina appear to have less developed insurance markets in the sample (lowest Life Insurance share, highest MTPL share, lowest insurance density and lowest penetration).

Table 1: Insurance Market Dependent Variables

2016 or 2017	MTPL/GWP (%)	Life GWP/Total GWP (%)	Insurance Penetration (GWP/GDP) (%)	Insurance Density (GWP/Capita) (%)
Albania	61.52	6	1.03	26.1
Kosovo	51.49	3	1.34	25.2
Macedonia	44.45	15	1.44	68.5
Montenegro	40.13	17	2.15	55.9
Serbia	33.96	26	2.12	76.2
Bosnia & Hercegovina	50.33	7	2.16	50.4

Source: Albanian Supervisory Authority, Central Bank of Kosovo, Macedonia Insurance Supervision Agency, Montenegro Insurance Agency, National Bank of Serbia, Insurance Agency of Bosnia and Herzegovina, XPRIMM Insurance Report 2016, https://datacatalog.worldbank.org/dataset/world-development-indicators

The Independent Variables: As we have pointed out above the dependent factors for assessing the state of an insurance market, through reasonable thinking, the factors affecting the development of an insurance market, thus the independent factors would be twofold:

1. Economic development indicators;
2. Financial literacy and inclusion.

Table 2: Insurance Market Independent Variables

	Economic Development Indicators			*Financial Literacy/Inclusion*	
2016 or 2017	**Average Net Salary (Euro)**	**GDP/Capita (PPP) (000 Euro)**	**Rate of Unemployment (%)**	**Financial Literacy Index**	**Financial Inclusion (FINDEX - % of adults with bank account)**
Albania	301.87	4,017	13.90	14	40
Kosovo	403.48	3,446	30.50	20	52
Macedonia	297.00	4,818	23.00	21	77
Montenegro	447.78	6,787	16.00	48	68
Serbia	358.05	5,223	14.10	38	71
Bosnia & Hercegovina	414.68	4,586	25.60	27	59

Source: Albanian Supervisory Authority, Central Bank of Kosovo, Macedonia Insurance Supervision Agency, Montenegro Insurance Agency, National Bank of Serbia, Insurance Agency of Bosnia and Herzegovina, https://www.worlddata.info, https://datacatalog.worldbank.org, https://www.numbeo.com/

1. **Economic development indicators:**
   - **Average net salary** – this goes in line with the concept that you cannot buy what you cannot afford, insurance included.
   - **GDP/Capita** – an indicator attesting to the economic strength of a country, thus the financial potential of the public to invest in insurance;
   - **Unemployment** – unemployed population expressed as % of entire population, this is a significant indicator of economic instability, therefore rationally expected to be reflected to insurance development as well, as the higher the unemployment, the lower the purchasing power.
2. **Financial literacy and inclusion indicators:**
   - **Financial Literacy Index[221] –** According to the Standard and Poor's Rating Services Global Financial Literacy Survey, Albania was placed at the bottom of the pyramid, with a level of financially literate of 14%, sided by Yemen and Afghanistan[222]. Also according to a survey-based study conducted by the Bank of Albania in 2011[223], it resulted that about 52% of the participants had never heard of an insurance product. the;
   - **FINDEX[224] -** an index, established by the World Bank, expressing financial penetration in a country by measuring the part of adult population that has at least a banking account, may prove significant regarding insurance market development as a complement of the financial literacy index.

3. THE METHODOLOGY

The Dependent Variables: Based on the observation of the results above, it seems that the indicators are on the same pace; therefore, all can differentiate between the markets, however, in order to see which are the most significant, a rather simple formula of correlation was employed (in excel):

Pearson's Coefficient of Correlation[225]:

$$r = \frac{\sum(X-\overline{X})(Y-\overline{Y})}{\sqrt{\sum(X-\overline{X})^2}\sqrt{(Y-\overline{Y})^2}}$$

Where, $\overline{X}$ = mean of X variable
$\overline{Y}$ = mean of Y variable

Since the four indicators above are not logically related or dependent upon one-another, a correlation matrix was produced, as follows:

Table 3: Matrix of Correlation Coefficients

	MTPL/GWP (%)	Life GWP/Total GWP (%)	Insurance Penetration (GWP/GDP) (%)	Insurance Density (GWP/Capita) (%)
MTPL/GWP (%)	**1**	-0.88	-0.74	-0.87
Life GWP/Total GWP (%)	-0.88	**1**	0.57	0.88
Insurance Penetration (GWP/GDP) (%)	-0.74	0.57	**1**	0.64
Insurance Density (GWP/Capita) (%)	-0.87	0.88	0.64	**1**

As can be inferred from the table above, the highest correlations are between:

1. MTPL to GWPS and Life Insurance GWPs to Total GWPs indicator (negative 0.88);

[221] Accessible at: https://www.theatlas.com/charts/VJDhtA8Xe
[222] Accessible at: https://news.gallup.com/poll/186680/two-three-adults-worldwide-financially-illiterate.aspx
[223] Financial Literacy in Albania: Survey Results for Measuring Financial Literacy of the Population, 2011
[224] The Global Findex Database 2017, World Bank Group, Accessible at: https://globalfindex.worldbank.org/
[225] Accessible at: https://businessjargons.com/karl-pearsons-coefficient-of-correlation.html

2. MTPL to GWPS and Insurance Density (negative 0.87);
3. Life GWPs to Total GWPs and Insurance Density (positive 0.88).

MTPL indicator is negatively correlated with the other two indicators, because the lower MTPL concentration the better, while for instance the higher the Life Insurance GWPs, the better.

Although Insurance Penetration and Insurance Density are similar indicators, they do not appear to be significantly correlated, as is the case for Insurance Penetration indicator and the other two indicators. By reasonable thinking the Insurance Density is a more accurate indicator because it measures the spread of insurance directly into the population, while the GDP is not such a concrete figure. Therefore, given the rather significant correlations of Insurance Density Indicator with MTPL and Life Insurance Indicator, as well as the correlation between those two, it seems unnecessary to keep the Insurance Penetration indicator. The other three are the most correlated and the most significant.

The Independent Variables: In order to depict how significant, the independent variables are in the movement of the dependent ones, the Pearson's coefficient of correlation are summarized in the table below:

Table 4: Independent and Dependent Variables Pearson Correlation Coefficients

Dependent Variables/Independent Variables	**MTPL/GWP (%)**	**Life GWP/Total GWP (%)**	**Insurance Density (GWP/Capita) (%)**
Average Net Salary (EUR)	-0.2945	-0.0467	-0.0585
GDP/Capita (PPP)	-0.6730	0.6852	0.6174
Rate of Unemployment (%)	0.2228	-0.6248	-0.3229
Financial Literacy Index	-0.8017	0.6930	0.5803
Financial Inclusion (FINDEX - % of adults with bank account)	-0.8675	0.7352	0.9147

- **Average Net Salary**, as can be observed from the table, although rationally thought to be relevant in the development of insurance market, it appears to have almost no significance. This could also be due to possible data inaccuracy, as sometimes countries lack precision in surveys, or some of them might even be inflated, in order to reveal a false sense of economic prosperity.
- As for **GDP/Capita**, some degree of correlation, although not significant enough, exists with all three dependent variables.
- Regarding **Unemployment**, it is interesting noting that while there is no significant effect of this variable in MTPL and Insurance Density dependent variables, there is some negative correlation, though not significant enough with the Life GWPs dependent variable. This could be pure coincidence; however, it may also fall in place with the analogy that the higher the unemployment, the lower the chances of people receiving life insurance, not only due to the fact that unemployed people lack income to purchase insurance, but also due to the possible fact that a considerable part of the institutions facilitate or encourage some form of life/health insurance for their employees.
- **Financial Literacy**, demonstrates some considerably significant, of course negative correlation with the MTPL dependent variable, although some, but not highly significant correlation with the Life GWPs variable, and even less with Insurance Density variable. The existence of correlation with MTPL variable is to be expected, as the saying goes, you would never buy something you hardly know anything about.
- **Financial Inclusion**, is the most significant independent variable, since it demonstrates considerable correlation with all three dependent variables. This fact goes along with the logical reasoning that the more the public is in touch with financial instruments, the more likely they are to be exposed to and utilize other financial services, such as being offered an overdraft due to having a bank account, or even receiving a promotion by the bank acting as a broker for an insurance cover etc.

4. LIMITATIONS OF THE STUDY

Because our sample is really small, there is not much of an option to remove an outlier if needed because, it would reduce the sample even further and might affect the relevance of the study. But left intact, the outlier would still

probably produce irrelevant results. Here we can mention Macedonia, with a low Financial Literacy score (21), while having a disproportionally high value for Financial Inclusion (77).
Although some logically significant independent variables turned out to be insignificant, as in the case of average salary, in some instances accuracy of data, could possibly be the cause. It has been noted that some particular data varies from source to source, especially average wage, or GDP related data.

5. CONCLUSIONS

From the tests conducted above, it results that:

- MTPL share of GWPs, together with the share of Life Insurance to GWPs and the Insurance Density Ratio are significant indicators to assess how developed an insurance market is. The lower the MTPL to GWPs, the higher the share of Life Insurance GWPs to overall GWPs and the higher the Insurance Density Ratio, the more developed the market is.
- **Financial Inclusion** and **Financial Literacy** turned out to be the most significant factors that can influence the three indicators above, thus the insurance market development. For this, reason, in order to bring about positive changes in the insurance market, more emphasis should be placed on these two areas by the government and the supervisory authorities.

6. FINAL THOUGHTS

Insurance should be regarded as a necessity and not as a tax imposed on the public. While this is the mentality in less developed insurance markets, where MTPL GWPs predominate and Life Insurance GWPs carry no significant weight, only promotion and popularity of voluntary insurance items, such as life and property can really deliver a change. It occurs from this paper that the most effective way to go about it is by largely attempting to increase Financial Inclusion and Financial Literacy. Some useful approaches to achieve this might be:

- Raising public awareness of insurance through events (fairs, celebrations such as assigning an insurance day etc..), while education and internships should be a viable way in pushing for increase of financial literacy and even financial inclusion.
- By offering a tax incentive for insurance, the Government might play an effective role in further enhancing the insurance market by providing more stimulus for the public to be drawn towards insurance products, especially life insurance.
- Given the agricultural advantage of the region, an inclusive insurance or micro-insurance scheme would probably prove beneficial, while offering a diversification in the insurance market's current structure.
- Introducing more compulsory insurance products, such as professional liability or EAR and CAR insurance, however, this is not regarded as one of the best approaches for the market development, as, while it might benefit both the market and the consumer in general, it does not primarily promote a free and open insurance market where supply and demand meet.

Given the similar reality the insurance markets in the Western Balkan share in common, the above suggestions may also be regarded as beneficial by other countries in the region, suffering the same condition.

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