

TREND OF PREMIUMS IN INSURANCE SECTOR IN KOSOVA COMPARISON WITH WESTERN BALKAN COUNTRIES

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Abstract: Taking into account the circumstances that Kosovo has faced since the 1990s until now, we can say that significant steps have been taken to advance the country's economic development, but it is still regarded as a country that is not economically developed enough, with a deep negative trade balance and an unfavorable macroeconomic policy to ensure a faster development trend, despite recent economic growth that has been insufficient to affect this. For analysis, we took the life and non-life insurance sector, which turns out to be undeveloped and participates in the financial sector with only 2.7%, so it is a symbolic indicator that speaks for itself about the development of the insurance sector. This industry is characterized by a low level of development, and the main motive is to analyze the development trend of this sector while comparing it with the countries of the region. The purpose of this paper is to identify and examine gross written premiums in the insurance sector in the Western Balkans. In this paper, we will analyze the trend of the gross written premium in the insurance sector in Kosova compared to the countries of the Western Balkans. The sample contains data such as the number of inhabitants, the total gross income at country level, the income per capita, the gross written premium, the rate of insurance density, and the penetration rate for the countries of Kosova, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia for the period 2010–2021. The empirical research is done by collecting data from the official reports published on an annual basis by the financial institutions of the countries in the region as well as the World Bank. A research paper is classified as an exploratory, descriptive, or explanatory study. Comparative analysis and descriptive statistics will be the methodologies applied in this paper. The analysis of these data shows that the development of the insurance market in Kosova and the countries of the Western Balkans from 2010 onwards, despite the new market entries of branches of large groups, has not been characterized by real strategies for the exploration of new segments of the market and an increase in demand. The insurance sector needs to be influenced by strategic approaches that move from transaction value to product lifetime value and from product life cycle to customer life cycle. The commitment to create an attractive environment for business initiatives and foreign investments, in addition to being a constant challenge for underdeveloped economies, should also be a strategic goal.

Keywords: Insurance sector, premiums, Kosova

1. INTRODUCTION

The insurance sector has a direct impact on the development of the country and region's economies, as well as the expansion into new markets through risk sharing, reinsurance, and the recovery of damages in insured instances. Increasing the quality of risk management improves consumers' trust in insurance companies and increases lending potential, which has a direct impact on investment and unemployment reduction in the host country. The increase in investment initiatives also affects the increase in budget revenues. These indicators are interrelated and have a multiplier effect on multiple financial and economic outcomes. The insurance sector has an important role in financial and economic development. Through the compensation of insured case, the impact of large losses on firms and households is reduced. The insurance sector reduces the amount of capital that would need to be saved to cover these eventual losses. This fact encourages increased investment, additional production, innovation and competition. As financial intermediaries with long investment horizons, life and non-life insurance companies can contribute to securing long-term finance and more effective risk management. The deposit insurance, contingency reserve sectors improves the efficiency of other financial sectors, such as banking and bond markets.

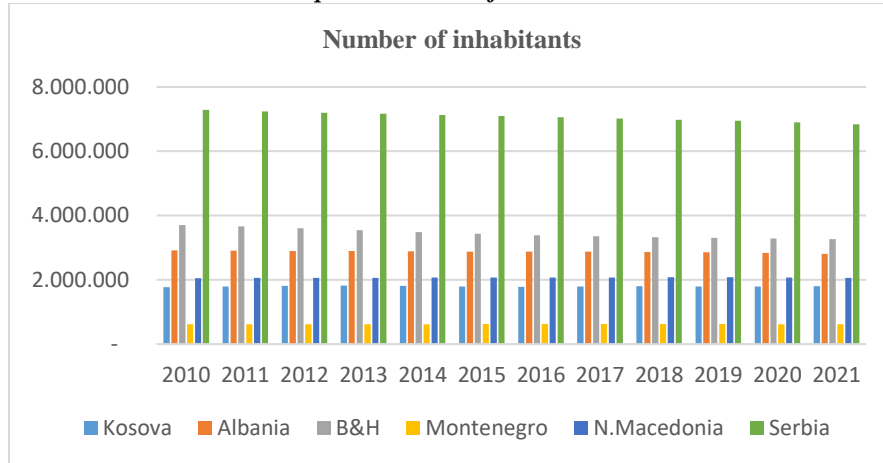
2. MATERIALS AND METHODS

The method of collecting and processing data for empirical research involves collecting data from official reports published on an annual basis by the financial institutions of the countries in the region as well as the World Bank. A research paper is classified as a descriptive and explanatory study. Comparative analysis and descriptive statistics will be the methodologies applied in this paper. The materials treated as well as the data processed in this paper are the number of inhabitants, the gross domestic product, the gross domestic product per capita, the gross written premium, the rate of insurance density, and the penetration rate for the countries of: Kosovo, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia, for the period 2010–2021.

3. RESULTS

From the data processed in an attempt to understand the capacity or potential of the insurance market, we have analyzed and presented in Figure 1 the data for the period from 2010 to 2021, showing the trend of the number of inhabitants according to the countries of the Western Balkans. Montenegro has the smallest number of inhabitants with 620,000, keeping the number almost the same during the observed period, followed by Kosovo with 1.8 million inhabitants and showing a long-term trend of increasing numbers. Macedonia had 2.0 million inhabitants, maintaining the same quota of the number of inhabitants throughout the observed period. Albania has 2.8 million inhabitants, marking a slight trend. Bosnia and Herzegovina with 3.2 million, marking a light trend, and Serbia with 6.8 million, marking a more pronounced trend in the number of inhabitants during the observed period, - 6.14% less than in 2010.

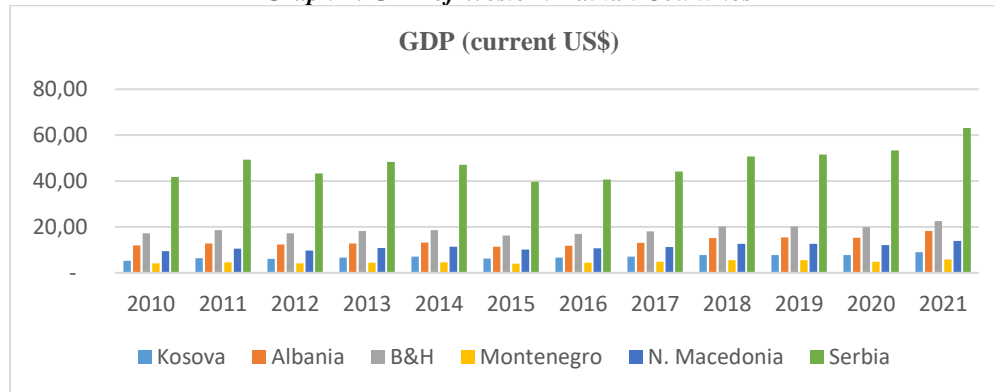
Graph 1: Number of inhabitants



Source: (World Bank, 2021), Author's Calculations.

The second figure shows GDP in US \$ of Western Balkans countries. After Montenegro with 5.8 mld US \$, Kosovo seems to have the smallest GDP in the region when compared to other Western Balkan countries with 9 mld US \$. North Macedonia with 13.8 mld US \$, Albania with 18.2 mld US\$, Bosnia and Herzegovina with 22.5 mld US \$ and the last one is Serbia with the highest GDP compared to the Western Balkan Countries with 63.06 mld US \$.

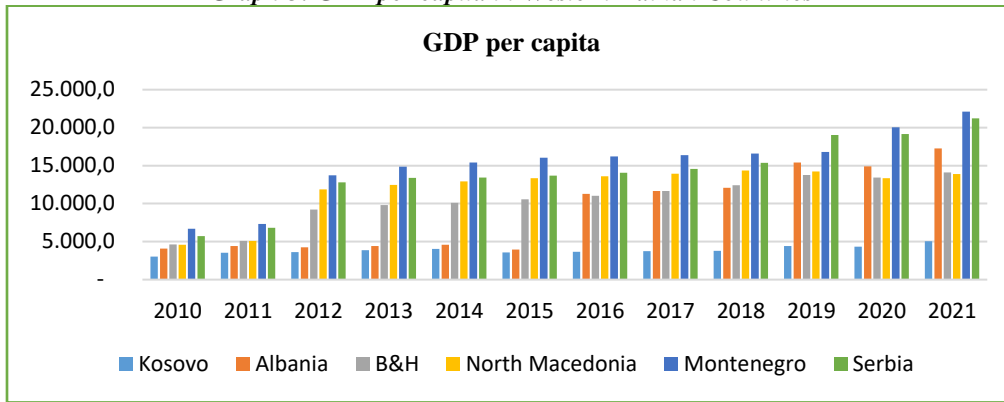
Graph 2: GDP of Western Balkan Countries



Source: (World Bank, 2021); Author's Calculations

The third figure shows GDP per Capita in US \$ of Western Balkans countries. Again, Kosovo seems to have the smallest GDP per capita in this region when compared to other Western Balkan countries, with only 4,986 US dollars at the end of 2021. North Macedonia with 13.8 mld US \$, Albania with 18.2 mld US\$, Bosnia and Herzegovina with 22.5 mld US \$ and the last one is Serbia with the highest GDP compared to the Western Balkan Countries with 63.06 mld US \$.

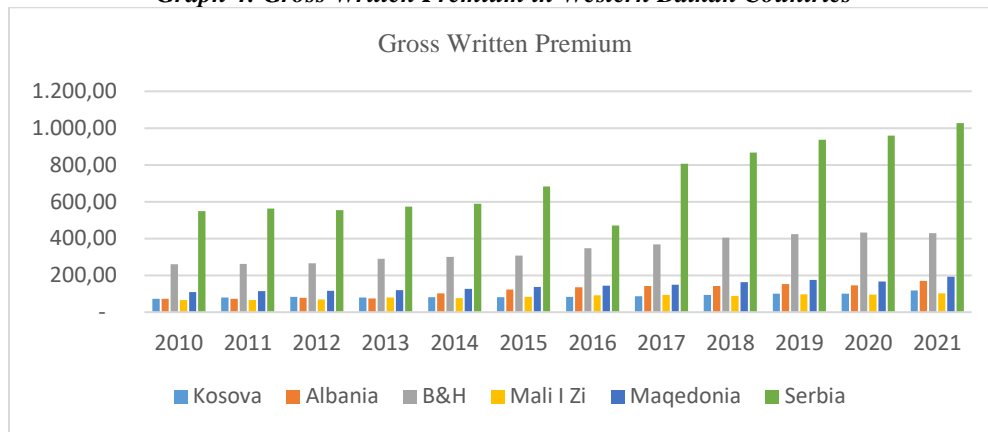
Graph 3: GDP per capita in Western Balkan Countries



Source: (World Bank, 2021); Author's Calculations.

The fourth figure shows GWP- Gross Written Premium, Life and Non Life Insurance of Western Balkans countries. Again Kosovo seems to have the smallest GWP in this region when compared to other Western Balkan countries, with only 117 million US \$ at the end of 2021. Except Montenegro which has only 620 thousand inhabitants and 101 million US \$ written Premium. North Macedonia with 192 mil US \$, Albania with 169 mil US\$, Bosnia and Herzegovina with 428 mil US \$ and the last one is Serbia with the highest GWP compared to the Western Balkan Countries with 1.027 mld US \$.

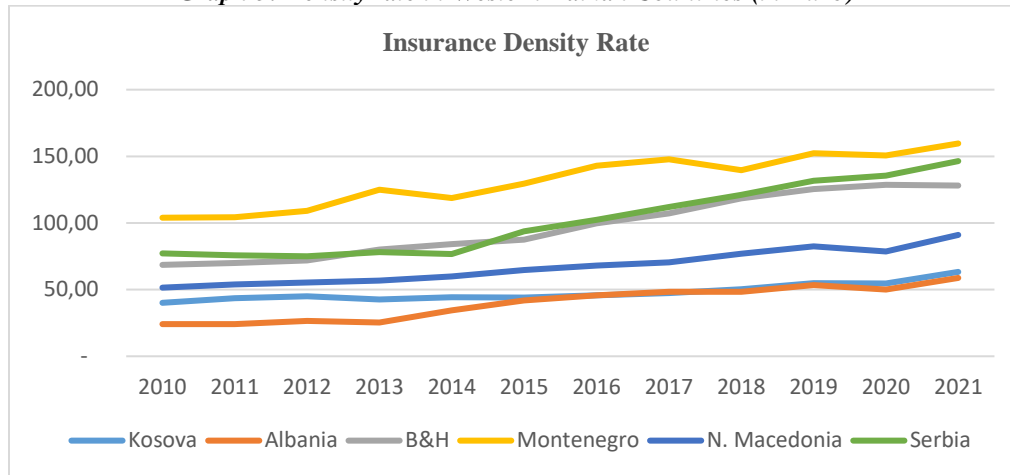
Graph 4: Gross Written Premium in Western Balkan Countries



Source: (Kosovo, 2021); (Serbia, Insurance Sector report, 2022); (Agency for Supervision Insurance, 2021); (AMF, 2021) (Central Bank Bosnie and Herzegovine, 2021); (Insurance Supervision Agency Montenegro, 2021).

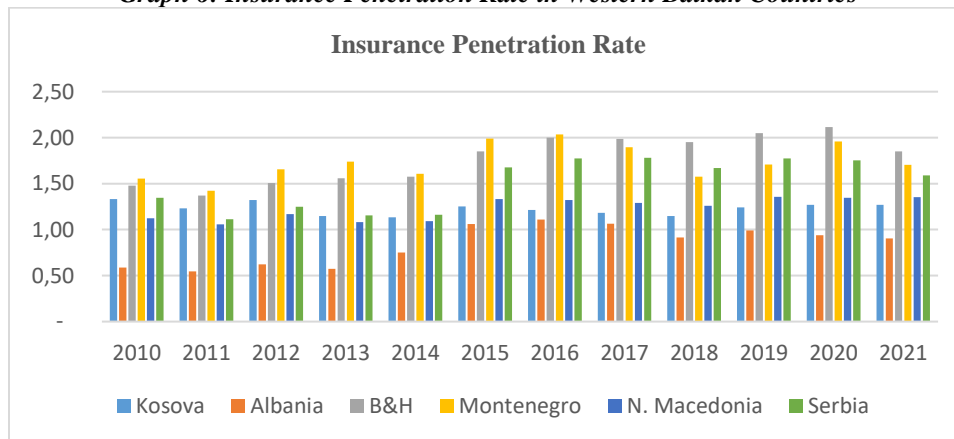
In figure 5, we are presenting the insurance density rate trend for this indicator for Western Balkan Countries. Albania seems to have the lowest density rate in the region when compared to other Western Balkan countries with only 58.76 US \$ at the end of 2021. Kosovo density rate is 63.28 US \$. North Macedonia with 91.04 mil US \$, Bosnia and Herzegovina with 128.08 US \$ and the last one is Serbia with the highest GWP compared to the Western Balkan Countries with 146.40 US \$, and Montenegro with the highest 159.63 US \$.

Graph 5: Density rate in Western Balkan Countries (in Euro)



Source: Author's Calculations; Density Rate = Gross Written Premium/No. of Inhabitants:

Graph 6: Insurance Penetration Rate in Western Balkan Countries



Sources: Author's Calculations; Pen. Rate = Gross Written Premium/Gross Domestic Product

Table 1: Macro-Economic data and Insurance sector assets in the financial sector

| Country | Inhabitants mil. | GDP Mld US \$ | GDP per Capita | Written Premium mil US \$ | Insurance Penetration Rate | Insurance Density Rate | Insurance/ Financial Sector |
|--------------|------------------|---------------|----------------|---------------------------|----------------------------|------------------------|-----------------------------|
| Kosova | 1.80 | 9.00 | 4,987 | 117 | 1.27 | 63.28 | 2.7% |
| Albania | 2.81 | 18.26 | 6,494 | 169 | 0.90 | 58.76 | 2.2% |
| B&H | 3.26 | 22.57 | 6,916 | 429 | 1.85 | 128.08 | 2.18% |
| Montenegro | 0.62 | 5.80 | 9,367 | 102 | 1.70 | 159.63 | 4.50% |
| N. Macedonia | 2.00 | 13.87 | 6,721 | 193 | 1.35 | 91.04 | 3.60% |
| Serbia | 6.84 | 63.06 | 9,215 | 1028 | 1.59 | 146.40 | 6.00% |

(Central Bank of Kosovo, 2022); (Albania, 2021); (National Bank of the Republic of North Macedonia, 2021); (The Central Bank of Bosnia And Herzegovina , 2021); (Montenegro, 2021); (Serbia, Insurance Sector in Serbia, 2021).
Author Calculations

- Penetration Rate = Gross written premium/DGP

- Density Rate = no. of inhabitants/Gross Written Premium

4. DISCUSSIONS

Analyzing the results presented above as a whole, the data by country shows that we still have differences regarding the countries of the region, and it is worth noting that Bosnia and Herzegovina (128.08 US\$), Serbia (146.40 US\$), and Montenegro (159.63 US\$) have a higher level of insurance density, so the amount of money allocated per capita for insurance on an annual basis is higher compared to the other three countries such as Kosovo (63.28 US\$), Albania (58.76 US\$), and Macedonia (91.04 US\$). This shows a more developed insurance market, despite the fact that it is very far behind compared to the countries of the European Union. If we quote here the per capita income for insurance in Denmark, which turns out to be 5972 euros, it is higher than the income per capita in Kosova. However, the challenge remains the economic development of these countries and their integration into the economic development trends of the EU countries.

5. CONCLUSIONS

Very low level per capita income of 4,987 US \$ in Kosova, which turns out to be the country with the lowest per capita income in the region, and up to 9,367 US \$ in Montenegro, which turns out to be the country with the highest income high per capita is a real indicator of the undeveloped state of the insurance market. This situation is associated with the dominant share of mandatory insurance products and is characterized by the low level of demand for voluntary insurance and life insurance. The insurance sector should be influenced by strategic development approaches by reorienting the focus from transaction value to product life value and from the product life cycle to the customer life cycle. The region has greater capacity and potential to develop the market share of voluntary insurance and Life Insurance, this is based on the indicator of the very symbolic participation of the insurance sector in the total assets of the financial sector, marking only 2.18% in Bosnia followed by Albania with 2.2%, and the highest among the countries of the region, Serbia, with 6.0%.

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