

Development of the Life Insurance Market in Kosovo

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Abstract

The Kosovo Insurance Market has experienced a relatively positive development over the last decade and has been characterized by ongoing reforms, especially with the new companies by offering new services. Currently, there are twelve insurance companies operating on the market offering a variety of products. The supervisory and regulatory institution, the Central Bank of Kosovo, approves the licensing and supervision of insurance companies in the country, based on two laws: 04/L - 018 Law on Compulsory Motor Liability Insurances and 05/L - 045 Law on Insurances.

From the research conducted by the Insurance Association of Kosovo, it has come to the conclusion that both forms of insurance are developed: life insurance and non-life insurance, with the latter dominating the market. The insurance market in Kosovo today is quite consolidated and has sufficient financial and professional capacities to provide various insurance coverage to protect citizens and their businesses from different events whether they are natural disasters or insurance on health, life, property, responsibilities, various accidents etc. However, it should be noted that there are still challenges ahead to overcome and achieve even more qualitative services, further enhancement of security offers and contemporary products, methods and ways forward of management to achieve European standards.

Through this study we have come out with exploration to see which factors are affecting Kosovo's demand for life insurance and how insurance companies can design policies that address the demands of costumers for life insurance policies?

Therefore, we have considered a brief history of the development of the insurance market, the progress of this market during the last decade, especially in voluntary insurance products such as life insurance. Our analysis is gathered on statistical and qualitative data through the study of the theories on life insurance development in other countries. Further, for the empirical analysis, we have used secondary data from Center Bank of Kosovo, Insurance Companies and Association Insurance of Kosovo. Also, we have conducted an interview with a manager of sell and marketing department from insurance company Illyria Life, to try and get a better understanding of the issue at hand. The identification of these factors would enable insurance companies to design policies that tackle the demands of consumers for life insurance policies.

Keywords: Insurance Companies; Life Insurance, Development.

Introduction

Thinking about insurance is often oriented technical considerations and business exchange. And yet, in a modern economy, the insurance business is important and deserves focuses on understanding its environment and its interactions with other sectors of the economy.

During the last decade the insurance market activities have been on a constant increase, gaining attention and giving larger economic impact.

In Kosovo, one can consider that the insurance market is consolidated by offering

a wide range of products, but with more development opportunity. The insurance market is largely dependent on the compulsory insurance that in this case covers the third-party liability insurance, governed by law. By this we mean that in the insurance industry we are dealing with compulsory insurance that is regulated by law and voluntary insurance. Then the insurances are further divided and act as two separate entities that are "life" and "non-life" insurances.

We will elaborate specifically the Life insurance: which is a way to protect our survivors and dependents against financial hardship. A life insurance contract or policy is a legal agreement between you and an insurance company that guarantees payment of the face value of the policy, upon death.

1. Overview of the literature

The Insurance market has been examined through many studies and by many authors due to its importance in today's economy. During recent decades contemporaneously with the expanding of life insurance, lots of studies have been implemented to investigate the nature of demanding and supplying life insurance, affective factors in demanding and other cases and related techniques to this field of insurance. Insurance Market has experienced a relatively positive growth, also the author outspoken characterized with the continuation of reforms, particularly with the entry of new companies into the market by offering new services (Arena, 2008). The correlation between insurance and economic growth has been analyzed by many authors at the international level, as concluded by the literature reviewed insurance market has a positive impact on economic growth. The life insurance impacts growth only in high-income countries, while non-life insurance impacts growth in both high-income and developing countries this opinion is in line with the findings of Arena (2008). Further Haiss and Sümeği (2008) have analyzed two impacts of insurance markets on the countries, the impact of insurance investment and premiums on GDP growth in Europe. Based on these two impacts, studied the role of insurance markets on finance-growth. They conducted their analysis based on panel data of 29 European countries from 1992 to 2005. From 15 EU countries evidence suggests that life insurance markets has positive impact on GDP growth, on the other hand the larger impact for liability insurance came from the New EU Member States from Central and Eastern Europe (Haiss & Sümeği, 2008) who claim that insurance sector must be paid more attention in financial sector analysis and macroeconomic policy, because the relationship between per capita income levels, education, and way of life have an important impact to the population to do also the life insurances not only non-life insurances Cristea et al. (2014). The correlation obtained between the GDP per capita and the insurance share in GDP shows a greater influence growth economic, also we can say that many studies used annual real GDP to measure economic growth insurance is measured by annual real insurance premiums, net written premiums and total assets of insurance companies. The results of the analysis showed that in all observed countries, where the economic development is higher also the weight of insurance to the GDP of that countries is higher than 10%, in some European countries it is even higher (Cristea et al., 2014). Headen and Lee (1974)

studied the effects of short run financial market behavior and consumer expectations on purchase of ordinary life insurance and developed structural determinants of life insurance demand. They concluded that life insurance demand is inelastic and positively affected by change in consumer sentiments; interest rates playing a role in the short run as well as in the long run. The study by Ul Din et al. (2017) discussed proxies such as net written premiums, penetration and density including data from 20 countries in a comparative framework, during the period of 2006 up to 2015. They assumed that at an abstract level demands depend upon the price of insurance, income level of individuals, availability of substitute, age and education. There are many other studies, treat influencing factors in the life insurance and insurance in general, undertaken finds a positive association between increase in savings behavior, financial service industry, income, GDP and demand for life insurance.

2. The development trends of the insurance industry in Kosovo

After the war was finished in 1999, Kosovo was put under administration by the international community so called UNMIK, with the aim of establishment and consolidation of state mechanisms including here the insurance market as well. Most of the insurance companies have started their work during year 2000, such as I. C. "Kosova", I. .C "Insig", I.C. "Siguria", and I.C. "Dardania". To these Insurance Companies was issued a temporary work permit from UNMIK Administration. In the first half of year 2001 respectively, in August, the first steps of building an efficient insurance system in Kosovo were set up with the creation of a supervisory department of insurance companies in Kosovo operating under the Payments Authority of Kosovo (BPK) later transformed into the Central Banking Authority of Kosovo (CBAK) and in 2008 it was appointed as the Central Bank of Kosovo (CBK). During the first half of year 2002, all insurance companies applied for licenses, although some of them had started work during year 2000. After the completion of all legal licensing procedures as required by Regulation 2001/25. Insurance Market has experienced a relatively positive development over the last decade and has been characterized by ongoing reforms, especially with the entry of new companies by offering new services.

The Central Bank of Kosovo (former Private bank of Kosovo), approves the licensing and supervision of insurance companies in the country, based on two laws: 04/L - 018 Law on Compulsory Motor Liability Insurances and 05/L - 045 Law on Insurances.

The Kosovo insurance market consists of fifteen insurance companies, of which twelve are non-life insurance companies (Prisig, Sigal, Sigma, Dukagjini, Eurosig, Illyria, Elsig, Insig, Scardian, Kosova e re, Sigkos, Siguria) and three life insurance companies (Sigal, Ilyria Life, Grawe Group a new name from year 2011 Grave Elsig) where 62.2% is foreign capital and total number of employees within the above companies' amount of 2,141 people. The insurance market in Kosovo at the end of year 2016 marks the asset figures, written premiums and written damages, as follows:

Performance of insurance sector

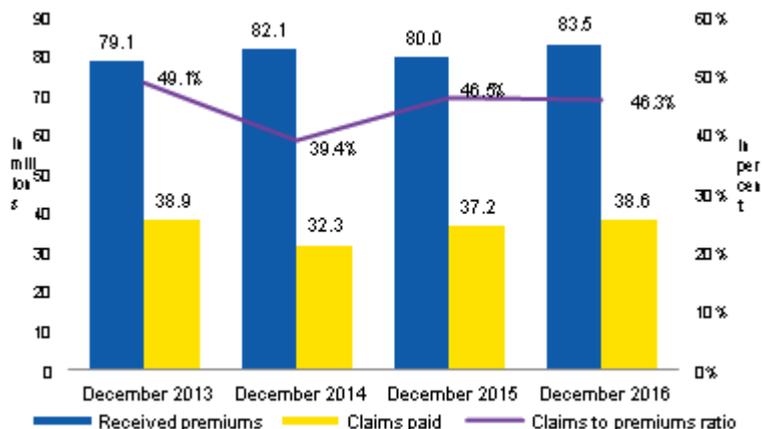


Figure 1 Assets of insurance sector (CBK, 2017)

Based on this table, one can note that the insurance market is not at a satisfactory level and has room for development. The insurance sector accounts for 3% of assets in the financial market in Kosovo. Compared to the previous period, the insurance market marked an increase by 6.1%. One of the key contributors to asset growth was the increase in liquid assets, respectively of cash held in commercial banks, which has the highest share in the assets structure of insurance companies.

Value of premiums written

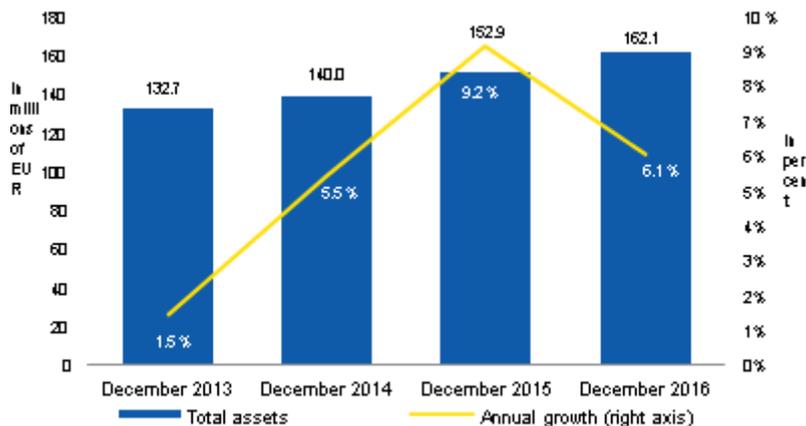


Figure 2 Written Premiums (CBK, 2017).

Of total value of premiums written in year 2016 marked an increase by 4.4% compared to the previous period. About 96.9% of revenues came from "non-life" insurance sector, which increased by 4.7%, while "life" insurance revenues amounted to 3.1%, and marked a decline from 3.7% compared to the previous period.

3. Life Insurances

In order to elaborate the development of life insurance in Kosovo, and how it has been evaluated in time, we have interviewed Mr. Mehmeti the Manager of Sell and marketing of the insurance company Illyria Life, who gives a concrete example of the services provided in the framework of this policy, clarifying the reasons why we need a life insurance policy, having in mind the stress and dynamic life we are living these days.

ILLYRIA Life is the first Life Insurance Company, licensed by the Central Bank of the Republic of Kosovo, is part of the Sava New Group. New Sava is the largest reinsurance company in Slovenia and

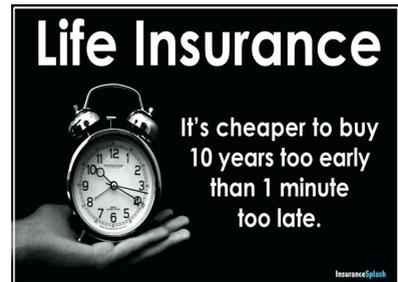


among the largest insurance groups in the region. It is one of the most successful insurance companies that enjoys A- (stable growth) rating by Standard & Poor's.

The life insurance policy is a product that every individual needs, because it not only allows long-term saving, it also covers the risks of illness or accidents. The financial consequences of surviving severe illness or accident can be destructive for the living standard of the family. The life insurance policy provides incomes during the hardest moments for the family, covers hospital costs and care.

Just as insurance is broken down into several categories, life insurance also contains various subcategories. Some common forms of life insurance policies that Illyria Life offers are:

-Classic life insurance: provides life insurance protection for a specified period of time. For example one person 30 years old should have the life insurance policy if do not currently have it, now it can be a good time to start. It's generally less expensive than permanent life insurance, and it is available in varying term periods with fixed premiums from a one- (annual renewable term) to 10-year period (level term). Furthermore, term insurance is sometimes convertible to permanent coverage, providing you with flexibility as your need changes. The average price of the insurance premium will reach the amount of 30 euros.



-Mixed life insurance: It is referred to as mixed because it links financial savings for survivors in the event of death with a savings plan for old-age provision. In I.C Illyria Life this is the most widely used form of insured. Mixed life insurance is a form of permanent life insurance that remains in force during the insured person's lifetime, provided premiums are paid as specified in the policy. They typically do so for three main reasons: to provide



themselves with a pension and to have extra money; to insure themselves in case of their death being that natural death or accidental death, their family members may live at least 5 years with a monthly income equal to the one that the insured person would have provided if he/she had lived. With less word we can say that the benefits from this policy are guaranteed at the end of the agreed term or in the event of death and are paid accordingly. After the end of the agreed term, the capital invested plus any interest accrued is paid out. In the event of the death of the policyholder, the beneficiaries receive the corresponding sum as collateral. The average price of the insurance premium will reach the amount of 40 euros.



-Providing scholarships: In the framework of life insurance, students seek a sub-type of scholarship policy whereby people from 14 years of age are insured. The insurance is usually contracted for a period ranging from 0 to 5 years. This is a good opportunity for students to take a loan for monthly expenditures while attending their studies, for example 100 euros monthly, which are repayable within a fixed period, when they start working.

The average price of the insurance premium will reach the amount of 25 euros.

Is a type of life insurance in which a single contract covers an entire group of people, is often provided as part of a complete employee benefit package. In most cases, the cost of group coverage is far less than what the employees or members would pay for a similar amount of individual protection. So if you are offered group life insurance through your employer or another group, you should

Group Life Insurance Policies



usually take it, especially if you have no other life insurance or if your personal coverage is inadequate. The average price of the insurance premium will reach the amount of 50 euros.

-Debtor's life insurance: Can build cash value, which earns an interest rate that may adjust periodically, is a form of permanent life insurance characterized by its flexible premiums, flexible face amounts and unbundled pricing structure but is usually guaranteed

not to fall below a certain percentage. From conversation that we done during the interview we can summarize that this type of insurance can be named as saving purposes where the insurance company promises in exchange of premium to pay a sum of money to the insured, or other person upon the death of the insured. The basic aim of the profitable insurance is providing the insured the financial stability, i.e. saving in third age of life. For example, parents have started to save for their child when he/she is of a very young age and when the child turns 18, he/she has enough money in his/her bank account to attend University studies or buy an apartment. If insurance is added to this package, which covers accidents, disability, medical costs, and then the average price of the insurance premium will reach the amount of 50 euros.

In terms of life insurance, Kosovo market is a relatively new market, the Illyria life already purchased the other company "Grawe Kosovo" which means that insurance market in Kosovo currently has only two companies operating in this business. However, the I.C. ILLYRIA Life is dominating the entire market with over 10,000 valid policies sold. They sell on average 100 policies per month. The company for which we are talking has reached 300% of the requested plan by the parent company Sava Re located in Ljubljana, Slovenia.

The development of life insurance in Kosovo, as we can identify based on data from Insurance companies and Central Bank of Kosovo is limited by several factors:

- The culture/information about insurance matters needs to be improved through education of population.
- A lack of capital market that seems to be a not suitable environment to enable investments from outside.
- The number of life insurance companies is very small, there are only 3 including "Grawe Elsig" that stooped selling products from year 2016 and now the Illyria life bought it, compared with non-life insurance companies that are 12.
- The low income for the year 2017, as the GDP per capita was \$ 3,890.07 (these data are obtained from the CEIC) and unemployment 30.6 %.

According to the data from the Central Bank of Kosovo, involving all insurance companies, and according to the interview that we conducted, (despite that the Illyria Life Company is a monopoly and does not need much marketing for clients, it only makes the direct marketing form), but if we look as a phenomenon in whole, the life insurance is not mandatory, it still has indications for the increasing of awareness at citizens. Based on these factors we can conclude that Kosovo is not standing well, if analyzing the economic situation, and level of unemployment. In general insurance market should have more attention from government (to adapt the law of health insurance) also the Insurance Companies to do different forms of marketing and promotions to achieve the increasing the number of clients, special for vulnerary products, such a life insurances policy.

In the actual conditions, market development opportunities of life insurance are necessarily related to foreign experience. This is reinforced by the fact that the main income of life insurance companies in other countries is from "Debtor life", which can basically be considered a mandatory insurance, insurance demanded by commercial banks for customers, who apply for credit. This way of development wants to apply

the I. C. Illyria Life, which plans for two upcoming years include launching a new product in the framework of life insurance is the same form, which will be enabled through bank, bank loans, and classic product, insurance in case of death. They have noticed that the people's attitude towards insurance has changed. They have become more aware. In the recent years, the company stopped going door-to-door, advertising, and paying visits to institutions or companies to acquire new clients, because the costumers visit themselves the Insurance companies, email or phone the company to get informed. If this trend of interest continues to grow, the interviewee stated that they do not think they will need any campaign to further attract customers.

Conclusions and Recommendations

Usually, considerable attention in economic development is devoted to the financial market in which insurance market is also important.

Kosovo's are the less insured community in Europe, a fact that leaves room for large development of insurance business. Low turnout of incomes from premiums in GDP and asset life testifies to the low level of development of the insurance sector in the country and translates into an untapped potential for further market development. The main reason for the low level of life insurance is related to a lack of insurance company tradition and culture of the population, economic situation, and the extent of unemployment, the lack of a national campaign related to the recognition of financial systems and in particular the recognition of insurance company systems.

The insurance products are still considered as luxury goods for people who live in countries with low economic development as we do. We can say the insurance sector needs to pay more attention in financial sector analysis and macroeconomic policy because with a well organized insurance sector could be one of the vectors catalysts processes of socio-economic development of a country or region, the development of the insurance industry should be treated as a public benefit, as this is its mission. Education with an insurance culture of young people by introducing insure education in high schools and then in universities.

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Appendix

Written transcript of an interview with FM a sales agent of Illyria Company

BH: When did you start to work here?

FM: I have been working with Illyria Company for 10 years. I worked as sales agent during the first six years dealing with all products offered by the company at that time. As a successful employee, I was selected to become manager of a group of six people. They were sales agents and I administered the group and the duties. A few years later, after acquiring experience and being efficient and successful, I was promoted to the position I currently hold–Head of Sales and Marketing Department. I supervise five managers who manage six employees each. In total, there are 30 sales agents and 15 administrative workers in the department I lead.

BH: What is the highest degree or level of education you have completed?

FM: I hold a Bachelor and Master's degree in Banking, Finance and Accounting earned from the University of Prishtina. I regularly attend numerous trainings on insurance abroad.

BH: Which type of insurances is the most popular choice of your clients?

FM: We sell only life insurance. Illyria Life sells products such as life insurance. We cover only several types of life insurance.

BH: Suppose that investment in life insurance is a good idea. Could you tell me more about that?

FM: There are many reasons this is very important. We also target people of 30 years of age, that is, people of your age. By the time you reach retirement age, you will have saved other funds which you have invested in life insurance over the course of your life. We are talking about a normal scenario, because there are cases of death, injury, accidents, termination of employment contract, etc., which leads to conditions being changed and penalties being applied by both us and the insured.

BH: Could you tell me a little bit more about how you convince your clients to purchase a life insurance policy?

FM: Yes, of course. I could talk at length about this topic. I have been through various things over 10 years of employment—which is a great deal of work and commitment. I have acquired this knowledge thanks to explanations and patience I have shown when dealing firstly with clients and secondly with the staff. First, I listen to the clients' question, then I provide detailed explanations about his request, terms, and then I give them time to decide. I give them all the instructions and reasons why purchasing life insurance is worth it for an individual, family member, a child who will have money in their accounts after several years without them noticing the small payments they make every month.

BH: What is the most common age of clients that wish to purchase a life insurance policy?

FM: As I said, our clients are 30 years old on average. They are usually employed. If they are married, they receive at least two monthly salaries.

BH: What are the main reasons they provide when purchasing this type of insurance?

FM: It depends on the type of life insurance policy they choose. For example, if they choose a mix life insurance policy, they typically do so for three main reasons: to provide themselves with a pension and to have extra money; to insure themselves in case of their death or incident so that their family members may live at least 5 years with a monthly income equal to the one that the insured person would have provided if he/she had lived; and for savings purposes—they diversify the risk by saving with both a bank and under a life insurance policy. This is what happens in western countries or USA. We ask, "Once his child turned 18, he bought an apartment or sent him to a prestigious university. How is this possible?" This is because they have started to save for their child when he/she is of a very young age and when the child turns 18, he/she has enough money in his/her bank account to attend University studies or buy an apartment. If insurance is added to this package, which covers accidents, disability, medical costs, then the average price of the insurance premium will reach 50 euros.

BH: Some people give that reason. Could you tell me more about clients and reasons behind their choices?

FM: Well, there is another reason. In the framework of life insurance, students—another group of clients—seek a sub-type of scholarship policy whereby people from the age of 14 are insured. The insurance is usually contracted for a period ranging from 0 to 20 years. This is a good opportunity for students to take a loan for monthly expenditures, say 100 euros, which are repayable within a fixed period once they are employed while attending their studies.

BH: What are the company's two-year sales goals concerning life insurance?

FM: We are a monopoly in Kosovo when it comes to life insurance. We have already purchased the other company "Grawe" which means that we are currently only two companies operating in this business in Kosovo. However our company is dominating the entire market with over 10,000 valid policies sold. We sell on average 100 policies per month. Our plans for these two upcoming years include launching a new product in the framework of life insurance which will be enabled through bank, bank loans, and classic product, insurance in case of death...

BH: What does the company plan to do to address the need for increasing the demand for life insurance policies?

FM: In 10 years of my work for this company, I have noticed that the people's attitude towards insurance has changed. They have become more aware. In the recent years, our company stopped going door-to-door, advertising, and paying visits to institutions or companies to acquire new clients, because the customers themselves visit Insurance companies, email or phone us to get informed. If this trend of interest continues to grow, I do not think we will need any campaign or something similar.

BH: Why do you think is the reason that people in Kosovo do not purchase voluntary insurance policies—life insurance policies in particular?

FM: In our opinion as a company, there is no other reasons except for these ones—the level

of education and monthly income. The more educated people are or the more they earn, the chances to be informed and purchase insurance are higher. Another important factor is the salary. That is, in a household where only one member is employed, the ability of this household to purchase insurance is limited although they know how important it is. These are two reasons that are linked to each other.

BH: What else would you like to share about the life insurance policies?

FM: I liked the idea of your paper. Well done to you! In my opinion, given the stressful, risky, and demanding lives we are currently living, life insurance is a necessity. It seems absurd to me that someone who is aware of its importance and has the ability to insure themselves, but doesn't do it.