Albanian Insurance market capacities to fulfil Solvency II Regime requirements as a country candidate for membership to the European Union

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Abstract

Solvency II is a relatively new regulatory framework for the European insurance industry. It is the term used for a European Union (EU) directive that became effective in 2009 which codifies and harmonizes insurance regulations in the EU. As Albania continues on its path towards full membership and integration into the EU, the country has made significant reforms in the regulation and management of its insurance industry to comply with EU standards. The main aim of this paper is to discuss the key features of Albanian insurance companies in light of recent Solvency II regime. This paper will also discuss the dynamics of the Albanian insurance market as well as the potential benefits to various related Albanian insurance actors of integrating the Albanian insurance industry into this market. Finally, common issues in insurance arrangement applications and the integration capacity of Albania will be evaluated. By using a mixed approach from global to local, we analyse the current Albanian situation by comparing the indicators of the Solvency regime with the current performance of the Albanian insurance market. Our results indicate that the Solvency II framework may lead to an enhanced economic performance of the current stakeholders in the Albanian market. However, the profitability of this restructuring depends strongly on the correct estimation of costs and the characteristics of the consolidation partner chosen.

Keywords: Insurance market, Solvency II; Market integration; Albania.

I. Introduction

Albania is a small EU candidate country with a financial sector dominated by banks. It has an underdeveloped financial services trade but still, it is a significant gap between the EU countries. In the medium-term and long-term, it is expected that Albania shall continue its deepening in banking and especially non-banking sectors through innovation, product diversification, integrated provision of financial services, and financial education. The Albanian insurance market has been established since the fall of the Communist regime in the early 1990s. During 2019, the insurance market continued its expansion at a relatively stable pace, with total assets fluctuating between 1.9-2.3% of the Gross Domestic Product (GDP) for the period 2015-2019. The insurance market in Albania is small, with a relatively moderate concentration rate. It is not well understood by the public, does not attract the confidence of the public and is dominated by compulsory insurance lines. By the size of its assets, the insurance sector is the third segment in the financial system in the Republic of Albania. The insurance sector is facing the entry into force on 1 January 2016 as the new macro-prudential framework resulting from European Directive 2009/138/

EC, known as Solvency II. According to (Dreyfuss, 2012), Solvency I was a prudent regime based on the 1970s directives, although revised in 2002, no longer seemed adapted to the economic, financial, and legal challenges of insurance. Due to several new challenges such as: globalization and the growth of international insurers, the emergence of new risks covered by insurers after Solvency I, the development of new regulatory requirements in various European countries, and the growing complexity of mathematical models for calculating risks, increasing the use of information and financial engineering, changes in insurance distribution and increased bank-assurance, etc. Edwards and Wolfe (2006) summarize the insurer as a "risk-taking" profession on behalf of individual clients and companies. An insurer identifies and determines risk, furthermore the price of it. The insurer mutualizes the risks, gives a price to a future and potentially detrimental event (thus assigning a monetary value). However, insurance activity is a risky task on the part of the insurer: he agrees to cover the risks of his insured clients while facing a number of other risks such as financial investment risks, operational risks, reputation risks, technical risks (natural disasters, pandemics, etc.), "moral hazard risk", etc. The insurer is ultimately present to bear the consequences, at least financially, associated with the risks that the "Company" cannot assume (Torre-Enciso and Barros, 2013). Moreover, some recent studies have shown that insurers, which are part of the financial conglomerates, had to face increased risks that arise from their strategic diversification (expansion of investment activities, activities of the bank branch, development of assistance, internationalization). An increasing complex is added to a normative context, in a sector whose progress is related to rights (contract law, liability law, for example).

The Solvency II Directive has established a set of technical, financial, economic, and corporate governance rules which define the prudent regime applicable to companies in the insurance sector in the European Union. It provides a mandatory framework for companies in the financial sector in order to assess their balance sheets, calculate their capital requirements, identify and manage risks, and communicate with regulators and the public. A management device is defined as a set of tools, people, and strategies created to achieve a specific management objective (Dany, 2001). In the literature, we effectively describe the integration of Solvency II in accordance with the deadlines and compliance of objectives which are set out in European Directive 2009/138/EC. By "norm" we mean a formal or informal object that restricts in a "difficult" way the behaviour of the target actors, such as laws, regulations, directives, standards, codes, or statutes.

Albania is a country candidate to enter the EU. In Albania, insurance companies are regulated by the Albanian Financial and Supervisory Authority. By the end of 2019, 12 Life and Non-Life insurance companies operated in the insurance market. In the market, there is a total of eight and four insurance companies operate in the Non-Life and Life market respectively. These five companies operate exclusively in the non-life segment and only one company operates exclusively in the life segment. One of the Non-Life insurance companies also carries out reinsurance activities. Substantial improvements have been made in efforts to increase the effectiveness of insurance sector oversight. The legal framework has been strengthened with the adoption of

primary legislation largely in line with EU requirements. The insurance market in Albania has been mainly oriented towards compulsory insurance, which accounted for the largest percentage of total premiums.
In 2019, in the total market, the volume of gross written premiums from insurance companies was approximately 143 million Euro. The insurance market continues to maintain the same configuration over the last years, whereby life insurance has a lower volume of premiums compared to Non-Life. According to its structure, the market continued to be oriented towards non-life insurance, which accounts for 93.1% of the total volume of gross written premiums in this market. Meanwhile, life insurance occupies 6.9% of the gross written premiums' total volume. During 2019, voluntary and compulsory insurance occupied 36% and 64% of the total gross written premiums respectively.
Despite the relatively rapid development, the insurance sector suffers from aggressive competition, primarily the size and growth of household disposable income, governance issues, lack of experience in financial reporting, financial literacy, etc. The adoption of International Financial Regulation Standards in the insurance market, as well as the implementation since 2016 by the European Union of the new regulatory regime Solvency II, creates substantial challenges for the functioning of the sector and its supervision. The main hypothesis discussed in this paper is the capability to apply the Solvency II regime in a developing country such as Albania, which will strongly depend on the institutional arrangements of the stakeholders and their capability to comply with the European standards. This paper is organized as follows: the section 2 analyses the theory about the insurance sector and the Solvency II regime standards and norms. The section 3 analyses the case. The section 4 presents the evidence-based results on how the Albanian financial system is capable to comply with the Solvency II regime. In the last section, the findings are discussed.

II. Theoretical background and research question

Insurance is defined as a "contract by which the insurer undertakes to indemnify the insured, in return for a premium or a contribution, for certain possible risks or claims" (Dubois, 1981). The objective of insurance is to identify the risk and to protect against a possible financial loss that quantifies an uncertain future by estimating the probability of a risk occurring (Van Hulle, 2019). The insurance business model is based on the underwriting of many idiosyncratic and uncorrelated risks. Risk diversification can be achieved in different ways: through pooling, insuring risks in different geographic regions as well as through reinsurance (Braumüller & Warzilek, 2011).
The biggest peculiarity of insurance is its reversed production cycle. Indeed, the customer pays a premium to obtain a service only if a disaster occurs. These premiums are invested in different types of assets depending on the duration of the insurance contract: a long-term guarantee corresponds to a long-term investment. Insurance is generally considered to be a long-term activity, particularly life insurance, where the duration of contracts can be up to 40 years, but also for non-life insurance, where

contracts are taken out annually, but often extended from year to year (Van Hulle, 2019).

Ratings agencies such as Standard & Poor's have shown an interest in utilizing Solvency II as a role model for "best practices" in the EU insurance industry. This means that EU insurers may need to voluntarily adopt some aspects of Solvency II in order to maintain a favourable status

with the ratings agencies (Hay, 2011). Furthermore, Solvency II promotes assessing risk management and regulatory compliance at the group level. Accordingly, it is possible that EU regulators may suffer pressure from international regulators into moving away from an entity-level risk assessment and compliance system, addressing towards a specific group-level approach (Hay, 2011). At a very specific level, the observation of the mechanisms of inter-organizational institutionalization requires to develop the studies to a better understanding, focusing on their logical organizational and practices, often contradictory or even conflicting, towards the institutionalization of the studied subject (Thornton et al., 2012; Powell and Rerup, 2017).

The New Institutional Economics (Wood et al., 2018) provides an analytical framework tailored to the phenomena of normalization in organizations, during which they, embedded in an organizational field, conform to a standard. Thus, the phenomena of institutionalization of the standard by organizations in a considered institutional field are periodically subject to scientific observations. More specifically, Wood et al., (2018) explain that neo-institutionalist approaches have evolved in two distinct currents. On the one hand, there are socio-economic approaches of institutions according to which the resources of institutionalization should be sought at a macro level, in the regulations of superstructures which are imposed on individuals in organizations (Hall and Soskice, 2001). In these approaches, individuals in organizations are reduced to simplified rational actors, such as classical economic models, subject to national structures (Wood et al., 2016). On the other hand, there are approaches to the micro-foundations of institutions for which the resources of institutionalization should be sought at the local level, in the actions and practices of actors that are considered as bearers of institutional logic (Hallett and Ventresca 2006). By using this logic, this paper aims to tackle the following research question: What is the state of the art of Albania's Solvency II implementation, and what issues prevent this implementation?

III. Methodological approach

In detail, this research was conducted over a period of 24 months. The research is achieved through data collection and fieldwork interviews. The strong focus on data collection seemed important to have sufficient access to the veracity of the situation on the ground and to be the centre of the object of study. The field study was conducted in phases which mobilized epistemological methods to utilize valuable data: a phase of existing diagnostics in relation to the evolution of standards in the field of insurance market; a phase of analysis of the Solvency II standard and its specific criteria; a phase of analysis of regional and European contexts of application of this standard; and a phase of analysing the current state of application of this standard in the insurance market in Albania. Regarding the data collected for conducting this research, their analysis and processing was based on the purpose and objective of the research. In total, they are made 80 individual interviews; 15 group interviews and 7 working meetings on technical points related to the implementation of the directive. Individual or group interviews were conducted in a semi-directive manner, with a questionnaire designed around the respective parameters of the three requirements which structure the directive and organized in accordance with the four principles of tetra-normalization and the proposed network of analysis. The identification of the constituent elements of the directive made possible the best explanation of the research problem focused on the effective integration of the Solvency II directive.

IV. Results

Although the insurance market in Albania has been the last in the region in its liberalization, over a 20- year period, 11 new insurance companies have been licensed. Insurance companies were established by Albanian shareholders, and later foreign investors entered by buying shares of existing companies that had been operating for years. Currently in the Albanian insurance market operate 12 insurance companies, of which 8 operate in non-Life insurance (where there are three groups that have two insurance companies each) and 4 operate in the sector of Life. Some of the companies that operate in Albania have Austrian capital, international companies in the insurance market, which implement the Solvency II regime. Although these companies apply the Solvency II regime in Austria and the groups they have (operating in several European countries) in Albania, insurance companies operating in Albania do not apply this regime. There are 4 groups operating in Albania, some of which have activities outside Albania, where two groups are mainly with foreign capital and one group is with Albanian capital. In the Solvency II regime, group oversight takes special importance in calculating solvency, it also pays attention to the risks that may arise from companies that are affiliated or operating outside their own country. Insurance companies operating in the Albanian market are organized according to the system with one and two levels of government. In companies with one level of government, the board of directors exercises the functions of administration and supervision, while in companies with two levels of government, the supervisory board exercises the functions of supervision, and the administrator, or board of directors, exercises the functions of administration. In table no. the information is provided by the shareholders of the insurance companies.

Gross written premiums for the insurance market in 2019 amounted to about 143 million euro. The most significant share in this market is occupied by non-life insurance with over 133 million euro or 93.1% of the total premiums of the insurance market, while the volume of Life insurance premiums occupies only 6.9% of the market. The insurance market continues to maintain the same configuration over the years, where Life insurance has a lower volume of premiums compared to non-Life. In recent years the insurance market has come with steady growth, but continues to be oriented towards the compulsory motor vehicle insurance. Compulsory motor insurance occupies 68.7% of the non-life insurance market share of gross written non-life insurance premiums. Fire and other property damages occupy 11.9% of gross written non-life insurance premiums followed by accidents and sickness of 7.24%, motor and other classes account for 5.34%, marine, aviation, and transport occupy 2.5%, civil liability occupies 2.8% and loans and guarantees are about 1.5% of the gross written premiums in the non-life market.

Recently, the insurance market had significant developments, still the development indicators of this market remain are still at a low level compared to the countries of the region and incomparable with EU countries. If we compare the main indicators that reflect the development of the insurance market, penetration rate, density, the weight of compulsory motor insurance against the total gross written premiums, as well as the weight of life insurance over the total market will notice the great differences that Albania has with the countries of the region and the EU. Some of these indicators compared to the countries of the region are presented in the table below to have a clearer picture of the stage of development of the insurance market compared to the Western Balkan countries aspiring to be part of the EU.

Table 1. Key data for the insurance market of the Western Balkan countries

Insurance market data	Albania	Serbia	Bosnia and Herzegovina	Northern Macedonia	Kosovo	Monte-Negro
Penetration Rate of the Market - 2019	1.05%	1.99%	2.19%	1.52%	1.43%	1.97%
Insurance Density in Euro - 2019	50	131	111	83	56	152
Life insurance / GWP total volume - 2019	6.9%	23.3%	20.8%	17.3%	3.5%	18.1%
Penetration Rate of the MTPL - 2018	0.66%	0.66%	1.1%	0.65%	0.83%	0.8%
Insurance Density of the MTPL in Euro - 2018	29.36	40.62	52.97	33.73	30.98	59.24
No. of Non-Life Insurance Companies - 2019	8	9	25	11	12	5
No. of Life Insurance Companies - 2019	4	7	13	6	-	5
Population in million - 2018	2.87	6.99	3.5	2.08	1.81	0.62
Vehicles for 1 000 citizens - 2017	194	320	246	219	178	333
MTPL / Non-Life GWP - 2018	63.4%	33.6%	50.9%	43.5%	60.0%	42.3%

Source: Elaborated by the author

The penetration rate[1] in EU is about 7.1% in 2019, while the insurance density[2] is 2085 Euro. The low level of penetration rate is 1.05% in 2019 (1.03% in 2018), the same goes for insurance density which is 50 euro per inhabitants in 2019 (46 euro in 2018) are clear indicators of the low-level development of this market, but on the other hand continues to strengthen the expectation that the Albanian insurance market presents great potential for further development. Although the insurance market in relation to other financial markets in recent years are presenting a stable situation and a steady growth, the need arises to increase the rate of penetration, through the expansion of the market of voluntary products.

The insurance market continues to be oriented towards compulsory insurance, where the ratio between compulsory and voluntary insurance varies from 61% to 66% in the last years. Albania has one of the smallest non-life insurance markets in Europe, and one of the smallest insurance markets in the world. In 2017 the non-life market was ranked 125th in the world. In 2019 the total market, the volume of gross written premiums from insurance companies resulted with an increase of 4.1% more than a year earlier. The market has maintained the same configuration of the Albanian market over the years, where life insurance has a low volume of premiums compared to non-life. In the table below is presented the relation between GDP, premiums and inflation.

Table 2. Increase in premiums and Gross Domestic Product in%

	2013	2014	2015	2016	2017	2018	2019
Increase in premiums	(6.46)	40.53	23.43	9.65	4.21	3.71	3.92
Nominal GDP growth	1.29	3.35	2.80	2.85	5.26	5.76	2.81
Inflation rate	1.94	1.61	1.91	1.28	1.99	1.89	1.72

Source: Field data collection and author's elaboration

It is interesting to note from table 2 that the overall level of economic activity, does not have a completely direct relationship with the development of premium income. This is because the insurance market in Albania is mainly supported by revenues from motor vehicle insurance and price changes. Since 2015 all insurance companies have had premium increases and have maintained market share with some minor changes. Since 2015, the companies with the lowest market share have had the largest growth, increasing by almost twice of the market growth (market growth is 26% for 5 years 2015 - 2019). This trend will continue in the future because small companies will continue to be more aggressive in the market, unlike large companies that pay

[1] The rate of penetration is calculated as the ratio of gross written premium and gross domestic product

[2] Insurance density is calculated as the ratio of gross written premium and the number of inhabitants in the country

more attention to the administration of the premium portfolio.
The insurance sector[3] in Albania is characterized by moderate concentration. The Herfindahl index[4], calculated through GWP, in 2019 was 2039,68 (2018: 2040.52). While the index changes from the range of 1,000 units to 2,500 units, the level of concentration of the insurance sector is considered acceptable. Analyzed by groups of insurances, high concentration is present in life insurance is related to the small number of companies in this market. According to life insurance companies, the Herfindal index, measured by GWP, is 3997.69 (2018: 4019.73), while in non-life insurance, the indicators show a lower concentration than life insurance, with the measurement through the Herfindahl index by GWP in 2019 being 2039.56 (2018: 2044.44) and showing the same level compared to last year. The CR5[5] indicator, measured through the shares in GWP of non-life insurance companies, in 2019 accounts for 79.44% (2018: 79.80%).

Table 3. Market Concentration

Nr	Market Concentration	Albania		Northern Macedonia	
		2018	2019	2018	2019
1	Life market	4 019.73	3 997.69	3 374.55	3 157.74
2	Non-life market	2 044.44	2 039.56	1 061.77	1 020.43

Source: Elaborated by the author

The high concentration causes a reduction of the products of insurance, high prices of police, and wealth transfers from customers to the companies of insurers.
Insurance market surveillance is regulated by law no. 52/2014 "On insurance and reinsurance activity" entered into force in 2014 and a law governing compulsory insurance of vehicles with No. 32/2021, dated 16.03.2021 "On compulsory insurance in the transport sector" as amended and the relevant regulations approved by the authority pursuant to these laws. The law regulating insurance and reinsurance business has some elements of the Solvency II directive mainly in corporate governance, increasing transparency of own risk, and solvency assessment (ORSA) analysis. Although these elements have been implemented since 2014, they have not led to improved corporate governance. Regulatory frameworks, requirements, or some actions have been taken by the regulatory authority but it has brought almost no change to the persons governing the societies that are not yet ready to accept the change and often calling it premature for Albania. There is an increase in the transparency of companies and the supervisory authority conducts the early warning

[3] In the non-life market, there are two shareholders who each own two non-life companies. In the calculation, they are accounted as one company gathering the market shares of each of them.
[4] The Herfindahl index is calculated according to the formula: HHI=s12+s22+s32+…sn2, where s is the share of each insurance company in the gross written premium of the insurance sector (it is expressed as a whole number, not a decimal) and n is the total number of insurance company in the industry.
[5] The CR5 indicator represents the share of the first 5 insurance companies with the largest share in the overall structure.

analysis. Pursuant to the existing legal and regulatory framework, the responsible authority (Financial Supervision Authority) should supervise and analyse the insurance market, assess the financial position, results, and technical indicators of the activity of insurance companies
In order to protect the interests of the insured and injured parties, it has to ensure timely payment of damage claims, insurance undertakings need not only allocate adequate technical provisions, but also invest these assets so as to ensure that their real value is maintained and increased, so that the undertaken obligations may be fully and timely met, both at present and in the future period. To be able to meet its liabilities, an undertaking must invest its assets taking due account of the risk profile and risk tolerance limits (qualitative and quantitative), by pursuing its investment policy. Since 2015 investments of non-life insurance companies, although they have increased in absolute value by over 23.2 million euros, in relation to total assets have decreased by approximately 12% for the period 2015-2019. This is an indicator that shows the fragility of the market development was given by the insurance companies in the EU that have a higher profit in their activity comes from investment activity. In addition, investments are mainly focused on time deposits in credit institutions (banks), Albanian Government Securities, Investments in shares on Land and Buildings.

Table 5. Structure of investments of technical reserves of the non-life market

Nr	Structure of investments	Albania		Northern Macedonia		Serbia	
		2018	2019	2018	2019	2018	2019
1	Bank accounts and bank deposits	47.8%	47.8%	44,9%	40,3%	10,9%	13,0%
2	Governments securities	12.6%	13.7%	46,4%	47,9%	60,4%	66,2%
3	Stocks, Investment funds and Investments in subordinated undertakings	18.7%	18.2%	8.2%	11,8%	-	-
4	Real estate	19.0%	18.3%	-	-	4,5%	4,1%
5	Others	1.9%	2.0%	0,5%	0,0%	24,2%	16,7%
	Total	100%	100%	100%	100%	100%	100%

Source: Elaborated by the author

Table 5 shows that the investments approximately have the same structure for the three countries. In this way, the insurance market in Albania continues to show a simple investment structure, and there is a complete lack of investment policies in other financial markets, such as investment funds or diversification in international stock exchanges. In the non-life market, investments are mainly focused on deposits or current accounts. Comparing to Northern Macedonia and Serbia, investments are less liquid. In Albania, the real estate investments in 2019 is several times higher than the average of the Western Balkan countries and incomparable to the average of EU member states at 1%. Net income from investments in the Republic of Albania in the non-life market was about 3 million Euro in 2019 or 2.2% of gross written premiums of this market, a ratio which is several times higher than the average of EU member states. One of the main requirements of Solvency II is the implementation of an investment policy that offers a higher return by managing the risks that come from them.

Gross technical provisions have had a positive growth trend for the period 2015-2019. This positive trend has continued in 2019, where gross technical provisions in total for the insurance market compared to 2018, have increased by 47 million euro or 34%. The largest increasement was in the non-Life insurance sector with 45 million euro or 37%, mainly due to the 2019 earthquake events, while the Life insurance sector increased by 1.4 million euro or 10% of the value that this item had in the period 2018. Positive trend of the increase of technical provisions in absolute value is also reflected in the specific weight that this item represents in the total liabilities presented in the graph presented above. In 2019, the specific weight of technical provisions in the structure of the insurance market liability was 57%, increasing by 5% compared to the previous financial period.

Equity, as a result of maintaining the profit of the period, in 2019 increased by 5% in absolute value compared to 2018. Although by increasing the specific weight of this item in the liabilities structure of the insurance market is 29% suffering a 5% drop from last year. This decrease the specific gravity that comes as a result of the greater increase in technical provisions. According to the provisions of Law no. 52/2014 "On insurance and reinsurance activity" assets covered by technical provisions are assets of the insurance company, which serve to cover future liabilities arising from insurance contracts and covering losses due to risks arising from exercising the activity of the insurance company, for which the latter is obliged to create technical provisions.

The solvency of insurance companies depends on the sufficiency of technical provisions to cover liabilities and on the meeting of conditions related to capital adequacy, which are defined as the ratio of the solvency margin required and available solvency margin. The table below shows the solvency of the insurance market

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Table 4. Solvency of insurance market, 2019

Country	Market Solvency		
	Totally	Life	Non-life
Albania	108.1%	123.8%	101.8%

Northern Macedonia	391.9%	373.3%	397.5%
Serbia	233.7%	265.5%*	217.6%**

* insurance undertakings primarily engaged in non-life insurance
** insurance undertakings primarily engaged in life insurance

Source: Elaborated by the author

The main capital adequacy indicator (the ratio of the available to required solvency margin) was 101.8% for all insurance undertakings in the non-life segment. For the life segment, the indicator is sufficient with about 3 million Euros above the required level, or 123.8%. For the insurance market as a whole, this indicator is presented at the level of 108.2%, which is relatively a good capitalization. Compared to the countries in the region, the market insurance solvency in Albania is several times lower, which in pessimistic market development situations can have consequences on the solvency of companies. The implementation of Solvency II may put companies in the Albanian market in difficulty, as experience with EU countries has shown that additional capital may be required to achieve SCR.

V. Conclusion

Solvency II is expected to bring significant benefits, and a positive impact on all stakeholders including insurance policyholders, insurers, supervisors, and the economy in general in Albania. The implementation of the directive "Solvency II" will bring a complete reorganization of the entire Albanian insurance sector. The implementation of the directive will certainly be more difficult than it was for the EU market, given the small size and scope of Albanian insurance companies and the low level of corporate governance. Albanian insurance market shows a lack of adequate mechanisms for the implementation of the Solvency II regime. This research does not allow us to fully answer the initial research question. Anyway, some points can be underlined. The implementation of Solvency II will bring about a significant change in the culture of risk management by insurance companies. Good insurer capitalization will enable the sector to withstand unforeseen shocks. By promoting good governance and risk management, Solvency II enhances consumer protection of insurance products. Solvency II is considered an important catalyst that motivates insurers to invest better the assets and the rate of return on investments to be higher. Harmonized reporting as well as timely provision of information, guarantees supervisors the availability of key information and enables them to take the necessary measures to supervisors in a timely manner. Also, this new regime will not be a hard burden for small companies, thanks to the principles of proportionality provided in this directive, according to the nature, degree, and complexity of the risk of insurance companies.

With the integration process the Albanian insurance markets will face strong competition due to the fact that a lot of companies from the EU can operate in Albania. Technological development for insurance market (InsurTech) will have an additional

impact on the competition. Given the complexity and implications of Solvency II, the process of implementing it in the Albanian. The insurance market should be a gradual and comprehensive process. Important is the fact that Law nr. 52, dated 22.05.2014 "On insurance and reinsurance activity" has implemented a supervision package through which will improve the process of risk assessment to monitor within the company and the market as a whole, increasing the effectiveness of the supervisory process and taking supervisory and regulatory measures. Also, in this framework all other countries in the region that are at the same stage of EU membership as Albania (as well as with an approximate level of development of the insurance market), such as Serbia, North Macedonia, and Montenegro, have envisaged a 10-year period for adapting and implementing Solvency II requirements. It is proposed that for the realization of all the above phases (based on the experience of the countries of the region that have already initiated this process) and in order to fully implement Solvency II, as well as for the gradual preparation of the supervisory regulatory infrastructure, to enable the application and acquisition of foreign technical assistance (Project - Twinning Project) with countries that have implemented Solvency II, such as Italy, Slovenia, Austria. In other cases (Berk and Berk, 2017) managers of Albanian insurance companies generally believe that Albanian's membership in the EU would be beneficial for the Albanian insurance market. The implementation phase is fully synchronized with Solvency II directive which is expected to be a long-lasting process in the case of the insurance sector in Albania. Based on the interview with relevant institutions that will be affected by the process expectations are very high costs (especially for small insurance companies) by upgrading or purchasing new software solutions, increase in the number of employees, need to educate staff, to hire consultants.
In summary, insurance in Albania is one of the industries that seems like it may integrate into the EU relatively harder than other sectors. Further research is needed to verify our hypothesis in the future.

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