The Life Insurance - How Acceptable are for the Albanians and the Factors Affecting their Level

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Abstract

The insurance market in Albania is a new market but with the rapid development rhythm. Insurance companies are important financial intermediaries in the financial system of the country, after banks which are the main financial intermediaries. Nonbank financial institutions remain relatively small and are not currently a source of systemic vulnerability. In Albania both forms of insurance are developed: life insurance and non life insurance. Non-life insurance dominates the insurance market in Albania. The life insurances are less developed; this phenomenon was observed in all developing countries. But what factors are affecting the Albanian demand for life insurance? We have based our study the analysis of data for the insurance companies and the survey method (personal interviews). The data were collected from 200 individuals with age, occupation, level of education and income level than the southern part of the country. Surveys were conducted in urban and rural areas. The data analysis and other factors that affect the demand for life insurance, is made on the basis of the regression analysis and the use of Cross Tabs. Objectives: - To know costumer's preference and attitude for life insurance policies according to their demographic factors. - Find out purpose for buying life insurance. - Find what factors are affecting the Albanian demand for life insurance.

Keywords: Life insurance, age, profession, income per capita, level of education, Non-life insurance

1. Introduction

Nowadays, the insurance sector is an important industry on a global scale, covering a wide range of risks like natural disasters, life insurance, property and responsibilities, it balances the protection of institutions that provide loans, by somehow creating overlapping or being turned in a background for particular segments of the banking sector and "shadow" banking ". The insurance system constitutes a significant source of investment funds. The insurance sector worldwide compared with the banking sector is more sensitive to developments in the real sector, and in particular to the average income level. Life insurance as an important part of the insurance industry plays an important role in the development of the financial system.

Table 1.1 The volume of Life and Non-Life Insurance 2002 -2011

	Country	2002		2005		2008		2009		2010		2011	
		Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life
AT	Austria	45%	55%	47%	53%	45%	55%	45%	55%	45%	55%	42%	58%
BE	Belgium	65%	35%	74%	26%	66%	34%	65%	35%	65%	35%	64%	36%
BG	Bulgaria	28%	72%	16%	84%	14%	86%	12%	88%	14%	86%	15%	85%
CH	Switzerland	65%	35%	59%	41%	56%	44%	55%	45%	55%	45%	55%	45%
CY	Cyprus	57%	43%	46%	54%	44%	56%	43%	57%	45%	55%	45%	55%
CZ	Czech Republic	28%	72%	36%	64%	38%	62%	40%	60%	45%	55%	45%	55%
DE	Germany	46%	54%	48%	52%	48%	52%	50%	50%	51%	49%	49%	51%
DK	Denmark	66%	34%	67%	33%	71%	29%	70%	30%	71%	29%	71%	29%
FR	France	65%	35%	69%	31%	67%	33%	69%	31%	69%	31%	66%	34%
GR	Greece	45%	55%	49%	51%	49%	51%	47%	53%	44%	56%	44%	56%
HR	Croatia	21%	79%	26%	74%	26%	74%	26%	74%	27%	73%	27%	73%
HU	Hungary	41%	59%	44%	56%	52%	48%	49%	51%	52%	48%	54%	46%
IE	Ireland	65%	35%	72%	28%	75%	25%	75%	25%	76%	24%	75%	25%
IS	Iceland	9%	91%	10%	90%	8%	92%	7%	93%	7%	93%	6%	94%
IT	Italy	63%	37%	67%	33%	59%	41%	69%	31%	72%	28%	67%	33%
NO	Norway	57%	43%	63%	37%	63%	37%	60%	40%	61%	39%	61%	39%
PL	Poland	43%	57%	49%	51%	66%	34%	59%	41%	58%	42%	56%	44%
PT	Portugal	54%	46%	68%	32%	72%	28%	72%	28%	74%	26%	65%	35%
RO	Romania	26%	74%	26%	74%	21%	79%	13%	87%	20%	80%	22%	78%
SE	Sweden	69%	31%	67%	33%	71%	29%	78%	22%	78%	22%	79%	21%
SI	Slovenia	23%	77%	30%	70%	32%	68%	30%	70%	31%	69%	29%	71%
SK	Slovakia	43%	57%	44%	56%	52%	48%	52%	48%	56%	44%	57%	43%
TR	Turkey	18%	82%	16%	84%	14%	86%	15%	85%	15%	85%	16%	84%
UK	United Kingdom	73%	27%	73%	27%	75%	25%	73%	27%	70%	30%	70%	30%
	Insurance Europe	**62%**	**38%**	**63%**	**37%**	**61%**	**39%**	**61%**	**39%**	**61%**	**39%**	**59%**	**41%**
	Country	2002		2005		2008		2009		2010		2011	
		Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life
AT	Austria	45%	55%	47%	53%	45%	55%	45%	55%	45%	55%	42%	58%
BE	Belgium	65%	35%	74%	26%	66%	34%	65%	35%	65%	35%	64%	36%
BG	Bulgaria	28%	72%	16%	84%	14%	86%	12%	88%	14%	86%	15%	85%
CH	Switzerland	65%	35%	59%	41%	56%	44%	55%	45%	55%	45%	55%	45%
CY	Cyprus	57%	43%	46%	54%	44%	56%	43%	57%	45%	55%	45%	55%
CZ	Czech Republic	28%	72%	36%	64%	38%	62%	40%	60%	45%	55%	45%	55%
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IE	Ireland	65%	35%	72%	28%	75%	25%	75%	25%	76%	24%	75%	25%
IS	Iceland	9%	91%	10%	90%	8%	92%	7%	93%	7%	93%	6%	94%
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RO	Romania	26%	74%	26%	74%	21%	79%	13%	87%	20%	80%	22%	78%
SE	Sweden	69%	31%	67%	33%	71%	29%	78%	22%	78%	22%	79%	21%
SI	Slovenia	23%	77%	30%	70%	32%	68%	30%	70%	31%	69%	29%	71%
SK	Slovakia	43%	57%	44%	56%	52%	48%	52%	48%	56%	44%	57%	43%
TR	Turkey	18%	82%	16%	84%	14%	86%	15%	85%	15%	85%	16%	84%
UK	United Kingdom	73%	27%	73%	27%	75%	25%	73%	27%	70%	30%	70%	30%
	Insurance Europe	**62%**	**38%**	**63%**	**37%**	**61%**	**39%**	**61%**	**39%**	**61%**	**39%**	**59%**	**41%**

Source: Eurostat

Theoretical and empirical findings often rank developed countries at the top of the list of the countries that have a developed sector of life insurance. It happens that these findings can be contradictory because less developed countries could have a more developed life insurance sector compared to developed countries. According to Thorsten Beck and Ian Webb, South Africa has had a penetration ratio in life insurance of 7.4%, comparable to developed countries. Life Insurance Penetration is the ratio of life premium volume of life insurance towards GDP. New reports from Switzerland show that the highest rates of life insurance growth for 2013 were in developing countries, while developed countries had a decrease. Referring to Eurostat, Table 1.1, apart from Austria, where life insurance predominates over non-life insurance, it was noticed the same trend. In developed countries the life insurance predominated the non-life insurance and the opposite was for the developing countries.

2. Chapter 1 Development of Insurance in Albania and their Tendency

The Albanian insurance market consists of ten insurance organisms, of which seven are non-life insurance companies, two are life insurance companies and there is a company that operates as a composite activity of Life and Non-Life Insurance (Insig). The Sigal Company is also licensed to practice reinsurance activity. Some Albanian Insurers also exercise their activity in the markets of Macedonia and Kosovo, to be mentioned are Insig, Sigma, Sigal and Albsig, this last one has recently entered the Macedonian market. For many years, almost a decade, Insig has been the only provider in the market not having competitors, although granting authorization for insurance activity formally belongs to the year 2000.This is because Insig has operated before the foundation of a Supervisory Authority insurance market.

Competition in the insurance market began with the licensing of new insurance companies. Thus, in 1999 Sigma and Sigal were licensed, two Insurers in Non-Life insurance, in 2001 two other non-life insurance entered the market, Intersig and Atlantic started functioning, while the year 2004 marked the launch of five new companies: Sigma , Interalbanian, Eurosig, Sigal and Sicred Life, which were licensed in one day: 9/10/2004. The last two companies operate in the Life insurance activity.

Life insurers are licensed to provide life – death insurance, wedding -giving birth insurance, insurances linked to investment funds and insurance of collective funds. It is worth mentioning the fact that only class 19, which corresponds to Life – Death insurance, covers the main share in the Albanian insurance market. Mostly, contracts issued by life insurers are byproducts of this class of insurance.

3. The Structure and Characteristics of the Insurance Market in Albania

During 2013 ten insurance companies continued to operate in the market, of which seven in the non-life insurance sector, two in the life insurance sector and one in the non-life and life insurance sector together.

Compared with the region countries, the number of insurance companies in general and especially those of life insurance in particular is very small. The number of life insurance companies in Bulgaria is 16, Czech republic has 22, Greece 22, Turkey 25, Romania 22 and Croatia 16.

The insurance market in Albania continues to be oriented towards compulsory insurance, which constitutes about 53% of revenue from gross written premiums insurance.

The non-life insurance accounts for about 90% of the total volume of premiums, while life insurance premiums account for about 10 -11% of the total insurance market in Albania. Motor insurance dominates the non-life insurance with about 62% of the volume of gross written premiums for 2013. In general, a division of insurance market according to Life and Non – Life insurance is shown in the table below:

Table 2.1: The structure of the insurance market for 2011-2012

Gross written premiums	Value (in thousand Lek)		
Accounting Period	2011	2012	2013
Life	940,798	880,282	960,000
Non Life	7,274,486	8,069,985	7,522,000
In % Life	11.45	9.84	11.31
In % Non Life	88.55	90.16	88.69

Source: Annual Reports 2011-2013 AFSA

In terms of life insurance Albanian market is a relatively new market, in 2004 this activity was provided by a single company, Insig. After 2004 two life companies entered the market, Sicred and Sigal Life, both with 100% domestic capital.

The development of life insurance in Albania is limited by several factors:

- A small business with a very small insurance market;
- A lack of capital market/a suitable environment to enable investments;
- The number of life companies is very small, there are only 3 including INSIG, compared with non-life insurance companies that are 8.
- A low income population. For 2013, the GDP per capita was $ 8200 (these data are obtained from the CIA), unemployment 12.5 % (but we are doubtful about them, we think that the figures are higher), and it turns out that 25% of the population are far away from limit poverty.
- The culture/information about insurance matters needs to be improved.
- The distribution of the population and its prevalence in rural areas makes life insurance in many cases not is recognized at all.
- The sales of life products is very low or absent.

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 is from "Debtor life", which can basically be considered a mandatory insurance, insurance demanded by commercial banks for customers, who apply for credit.

The life products market is divided as follows:

Fig. 2.1: Market structure - Life insurance - GWP - May 2014
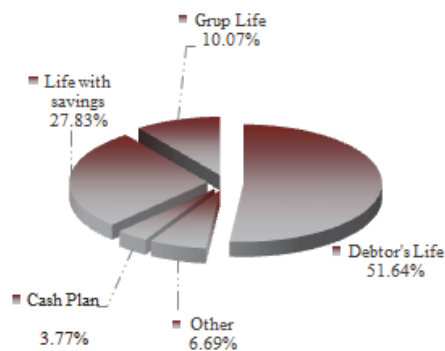
Source: AFSA

Unfortunately, the debtor life insurance is dominant, which is compulsory insurance,49% includes voluntary life insurance. In order to educate the youth with life insurance, insurance companies apply lower tariffs for pupils and students. Some are: "Student's Life"& "Pupil and Student's Life". It should be noted that the provision of accidents and health is the most dynamic line in the insurance market with an increase in 2013 of 91% of gross written premiums, compared with 2012. Factors that have contributed in particular to this positive dynamic growth is the volume of premiums private health insurance product, which in recent years has been influenced by Austrian expertise in the market.

4. Chapter 2. Statistical Analysis of Factors Affecting Life Insurance in Albania

"Of four billion people in the world who live on less than two dollars a day, less than ten million have access to insurance." Craig Churchill, in micro insurance conference in October 2005, Munich

We think, there are certain macroeconomic variables like income, rate of interest, and accumulated savings in wealth form; along with a set of demographic or social variables having potential impact on individuals' decision to opt for or not to demand life insurance. Life insurance consumption increases with the breadwinner's probability of death, the present level of family's consumption and the degree of risk aversion.

Numerous studies have been conducted to set empirical factors affecting the supply and demand for life insurance. Some of our research is mentioned below:

Headen and Lee (1974) studied the effects of shortrun financial market behaviour 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 shortrun as well as in the longrun.

The study by Truett et al. (1990) discussed the growth pattern of life insurance consumption in Mexico and The United States in a comparative framework, during the period of 1964 up to 1984. 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 for specific countries or for a group of countries, treat influencing factors in the life insurance and insurance in general.

The review of some earlier studies concludes that the bulk of the empirical studies undertaken finds a positive association between increase in savings behavior, financial service industry, income, GDP and demand for life insurance.

Based on empirical studies and in a database in Table 3.1, we tried to give factors affecting the demand for life insurance in Albania.

Table 3.1: The factors affecting the demand for life insurance in Albania

Year	Eco_growth	Y< 65	Birth_rate	Gni_capita	Infl_Rate	G_pop	Edu_exp	(tot_prim)/gdp	(life prim)/gdp	(non_life_prime)/ gdp
1999	26.17	7.2	17.8	3950	0.5	-0.21	99,369,200	0.0038	0.0001	0.0037
2000	7.37	7.4	16.92	4820	1	-0.03	107,756,100	0.0038	0.0001	0.0037
2001	10.77	7.6	16.1	4980		0.18	120,437,300	0.005	0.0003	0.0047
2002	8.32	7.8	15.35	5350	6	0.4	130,114,200	0.0061	0.0005	0.0056
2003	26.34	8	14.68	5770	2.4	0.55	165,445,200	0.0054	0.0001	0.0053
2004	31.29	8.2	14.1	6220	3.2	0.58	217,370,700	0.0055	0.0002	0.0053
2005	11.61	8.4	13.63	6980	2.4	0.54	242,799,600	0.0049	0.0003	0.0046
2006	8.51	8.7	13.28	7380	2.5	0.47	266,812,400	0.0051	0.0003	0.0048
2007	16.73	8.9	13.04	8280	2.9	0.41	312,879,400	0.0062	0.0004	0.0058
2008	20.70	9.2	12.89	8500	3.4	0.37	373,414,100	0.0065	0.0005	0.006
2009	-6.89	9.4	12.8	8560	2.2	0.36	341,402,800	0.0069	0.0006	0.0063
2010	-2.50	9.7	12.76	8820	3.6	0.36	334,290,900	0.0065	0.0007	0.0058
2011	8.89	9.9	12.75	8800	3.5	0.36	366,537,600	0.0064	0.0005	0.0059

Source: Bank of Albania, INSTAT, AFSA

By statistical analysis it is shown that:

LIFE_INS = 425 - 11.345* ECO_GROWTH R^2= 0.241

Dev.Stand 100 5.55

Stat. T 4.26 -2.04**

The model results important F = 4.169, with important individual links t = 2:04 and explanation of 24.1%. There is an absence of autocorrelation (d 2) and a normal waste. This simple model with a variable pattern is of good results.

The economic growth negatively affects the trend of Albanian citizens in the request of products towards life insurance industry (incomes growth increases the quality of life care, as a result it increases the possibility to have cures in cases of accidents or illnesses. The economic growth is not in such levels to significantly increase the personal income of Albanians. Albania remains one of the countries with the lowest income per capita in Europe). Life insurance is considered the best luxury for Albanians; as a result the model built is consistent with the theoretical approaches.

Aiming to analyze factors influencing security in the southern region of Albania, we have collected data from 200 individuals with age, occupation, level of education and income from the southern part of the country. The survey was conducted in urban and rural areas.

The survey was carried out in several different areas of southern Albania during a two month.

The following assumptions are made on the basis of predictions:

- A positive opinion about the individual life insurance depends on their sex.
- A positive opinion about the individual life insurance depends on their age.

- A positive opinion about the individual life insurance depends on their education.
- People buy life insurance depending on their income.

The participation in this survey consisted of 200 people, whose age was above 18 years. The number of questions was 8 and was all open questions. Questions in this survey included information about the interviewers as their age, gender, education, average income, their opinion on the security services. With the help of this information we were able to determine what part of the population was aware of the insurance companies and the influencing factors in the life insurance services. Kotler (1997) describes in his theory that it is possible to get a good result even if the number of participants is less than 1% of the population as a whole. We tested the attitude of the insured people according to demographic factors (gender, age, education) control criterion hypotheses with Hi-square X2 distribution.

4.1 According to the question "Is life insurance necessary?" on the basis of sex, we take two hypotheses:
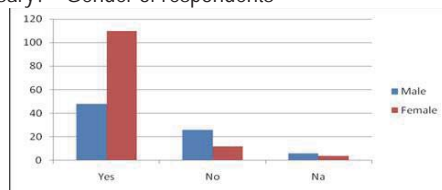
H0 - The proportion of respondents who think that security is independent of gender.
H1 - The proportion of respondents who think that security is dependent on gender.

Table 3.a Hi-Square Test results "Is insurance necessary? * Gender of respondents"

Statistics	Estimated value	Discretion Scale
Hi- square	0.211774	2

Decision: The calculated value is 0.211774 and it receives a critical value of 8.13 with 2 degrees of space. The calculated value is greater than the critical value, so the null hypothesis is rejected. This means that if the respondent thinks that life insurance is necessary it depends on its gender.

Graph 3.a. "Is life insurance necessary? * Gender of respondents "

4.2 According to the question "Is life insurance necessary? related to age of the respondents, we have these hypotheses
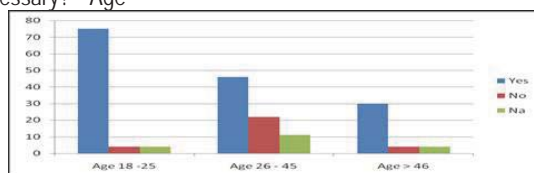
H0 - The proportion of respondents who think that insurance is needed is independent of age.
H1 - The proportion of respondents who think that insurance is necessary is dependent on age.

Table 3. b. Results of hi-square test "Is life insurance necessary? * Age of the respondents"

Statistics	Estimated value	Discretion Scale
Hi- square	0.1723183	2

Decision: The calculated value is greater than the critical value which is 13.8. Calculation shows that the calculated value is greater than the critical value, so the null hypothesis is rejected. From this we conclude that the age of the respondents is important in their decision about life insurance.

Figure 3. b. "Is insurance necessary? * Age

4.3 According to the question "Is life insurance necessary" related to education, we have these hypotheses:

H0 - The proportion of respondents who think that life insurance is reasonably independent of education.
H1 - The proportion of respondents who think that life insurance is necessary is dependent on education.

Table 3.c "Is life assurance necessary" * On education "

Statistics	Estimated value	Discretion Scale
Hi- square	0.523734836	2

Decision: The calculated value is greater than the critical value which is 13.8, so the null hypothesis is rejected. From this we conclude that respondents are influenced by education in their decision on insurance.
Most respondents,52% of them with a Bachelor degree on education are of the opinion that the security services are necessary. We think the reasons are: Most universities have some business courses as compulsory subjects and most students usually try to start their own businesses or are already engaged in small, medium or large businesses. This is why they are more interested in the economic system including security system.

Figure 3.c "Is life insurance necessary? * About education "
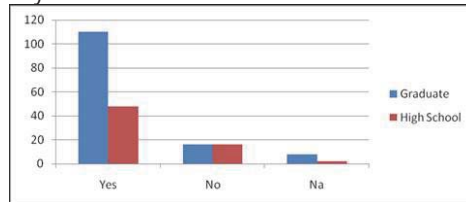
*4.4 The forth analysis will be developed about the income ability for life insurance services.*

H0 - Part of respondents having life insurance that is independent of their income enough to be insured.
H1 - Part of respondents having life insurance dependent on sufficient income to be insured.

Table 3.d. The amount of personal income allowing life insurance services.

Statistics	Estimated value	Discretion Scale
Hi- square	8.39449E-05	2

Decision: The calculated value is greater than the critical value which is 13.8, so the null hypothesis is rejected. This means that the unwinding of life insurance service by individuals depends on the adequacy of their income to have a life insurance.

Figure 3.d. The amount of personal income allowing life insurance services.
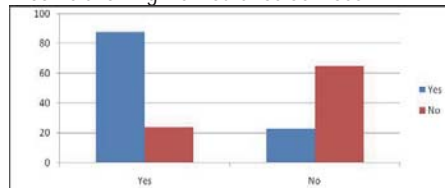
The analysis showed that the amount of insurance an individual buys, has a high dependence on his income.

5. Conclusions and Recommendations

Albanian people due to political and economic specifications until late 90s, have an insufficient financial culture. Our

financial markets have only 20 years of age. But, in these 20 years, very few or no one stopped to think that these markets would be part of the social, educational, economic, legal development and public discussion. This approach has certainly produced its negative consequences.

Albanians are the less insured community in Europe, a fact that leaves room for large development of insurance business. Low turnout of revenue 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. This is reinforced by the growing interest of foreign operators, mainly active in the field of insurance and their ownership participation in the Albanian insurance companies. Names, such as Vienna Insurance Group and UNIQA Group Austria, already own controlling shares of Sigma and Sigal.

The main reason for the low level of life insurance is related to a lack of insurance company tradition and culture of the population, the lack of a national campaign related to the recognition of financial systems and in particular the recognition of insurance company systems.

In Albania, life insurance is still considered as a luxury, shown by regression analysis and the results of the questionnaire. An increase in GDP or income per capita does not cause increased demand for life insurance.

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.

All these private and public factors/actors in the field of insurance: the civil society, academic and educational institutions all should show their commitment to analyze, select and design development programs of the insurance industry, which due to its nature has an undisputed impact on our national socio-economic development.

Creating a public research development center of the financial sector would be a measure that would fill the gaps and help development challenges and the Albanian economy in general.

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Appendix

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	ECO_GROWTH[b]	.	Enter

a. Dependent Variable: LIFE_INS

b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.563[a]	.317	.241	192.937	1.949

a. Predictors: (Constant), ECO_GROWTH
b. Dependent Variable: LIFE_INS

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	155207.229	1	155207.229	4.169	.072[b]
	Residual	335022.771	9	37224.752		
	Total	490230.000	10			

a. Dependent Variable: LIFE_INS
b. Predictors: (Constant), ECO_GROWTH

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	425.986	99.960		4.262	.002		
	ECO_GROWTH	-11.345	5.556	-.563	-2.042	.072	1.000	1.000

a. Dependent Variable: LIFE_INS

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	ECO_GROWTH
1	1	1.813	1.000	.09	.09
	2	.187	3.116	.91	.91

a. Dependent Variable: LIFE_INS

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	70.99	504.11	260.00	124.582	11
Residual	-333.321	323.878	.000	183.036	11
Std. Predicted Value	-1.517	1.959	.000	1.000	11
Std. Residual	-1.728	1.679	.000	.949	11

a. Dependent Variable: LIFE_INS

Histogram
Dependent Variable: LIFE_INS

Mean = -1.39E-17
Std. Dev. = 0.949
N = 11