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## **Enkeleda SHEHI, Chairperson, Albanian FSA**

**XPRIMM:** *Please introduce us in a few words the insurance market of Albania.*

**Enkeleda SHEHI:** The Financial Supervisory Authority (AFSA) was established pursuant to Law No. 9572 of 3 July 2006 "On the Financial Supervisory Authority", as a consolidated regulatory body to supervise the insurance, voluntary private pension and securities markets. The AFSA is an independent legal public institution which reports to the Parliament on its activity. Before the establishment of the AFSA, the insurance market was supervised by the Insurance Supervisory Authority (ISA - established in 2004), formerly Insurance Supervision Commission (1996). AFSA consolidated the functions of three separate regulators, those of insurance, voluntary private pensions and securities.



The first privately owned insurance companies were set up during 1999-2001 with the licensing of 5 non-life companies in the market. Up to that time, Insig was the only insurer in the market, due to being a state company with its establishment since 1948. Insig is still 100 percent owned by the state, seeking to be privatized. Another 5 insurance companies entered the market in 2004 and the recent entrant is another non-life company authorized by the AFSA in 2012. Currently there are 11 operators in the market, 8 non-life, 3 life and INSIG - a composite company.

**XPRIMM:** *What is the most popular sales channel?*

**E. S.:** The main distribution channels are through intermediaries, mainly agents. Brokers also exist in the market, but still record insignificant transaction volume, relative to other distribution channels. Currently there are 8 subjects authorized to conduct brokerage activity in the insurance market.

**XPRIMM:** *How exposed is Albania to natural disasters?*

**E. S.:** The most common perils encountered in Albania are earthquakes and floods. Despite that, property insurance is still at low penetration levels, mainly being influenced by private banks as a requirement to insure their collateral. One major challenge in these conditions remains the public awareness and its confidence in the industry. The MTPL transition, which is the first insurance product the public has had acquaintance, could have served as a good marketing for other insurance products. However the low penetration and density of the market underline its unexploited potential.

**XPRIMM: *Are there significant differences between the Albanian and other Balkan insurance markets?***

**E. S.:** The Albanian insurance market is unique in its experience in that it has evolved fairly quickly, given its relatively short history. The law which paved the way for the current market dates back to 1999, being also replaced in 2004.

Similar to most other Balkan countries, motor insurance, especially MTPL has dominated the market structure for a long time, since the market establishment. This is basically the first insurance, with which the public has its first acquaintance and basically it serves as marketing for other insurance products. In Albania, MTPL is the main insurance product sold and currently is entering a pricing transition period after the removal of fixed-tariff regime. Low penetration and density are also indicators that the Albanian market has a long way to go, but also a great potential for future growth, aiming at least to match some more developed regional markets.

**XPRIMM: *How would you characterize the local insurance market evolution this half year?***

**E. S.:** The insurance premium revenue for the first half of 2012 showed a 5.56% decrease, compared to last year, mainly attributed to the transition in the MTPL pricing. The market continued to be dominated by Non Life insurance, which contributed with 88.63% of the total premium volume. Voluntary insurance constitutes about 54% of the market structure, a trend observed a second year in a row now, but also mainly because of the MTPL pricing fluctuations, otherwise the market structure would have been still dominated by compulsory insurance. The voluntary insurance also registered an overall 8% decrease from the last year. Despite the current difficult business environment, some voluntary lines have performed quite well, more precisely the sickness insurance, with around 24% growth, directly linked to a growth in the customers' base, while in property insurance the growth is attributed mainly to the underwriting of some big complex risks.

**XPRIMM: *What changed in the analyzed period from a year ago?***

**E. S.:** It should be noted that Domestic MTPL was the most dynamic line in the insurance market during the first half of 2012, with an increase by 24% in gross written premiums. This is attributed mainly to the upward correction of market premiums during this period.

A noticeable growth dynamic was also recorded in property insurance as well, with an increase by 11% in gross written premiums.

The portfolio that experienced the sharpest decrease, during that period is the Green card portfolio, about 51% less than in the first half of 2011. This was due to the effect after the liberalization of the MTPL, worsening in the first half of the year 2012.

Also the business volume in personal accidents and health insurance experienced a decrease by 32% mainly in accidents insurance. Despite that, sickness insurance is keeping its growth pace, with approximately 27% growth for the first half of 2012.

**XPRIMM: *How do you explain the decreasing in life and accidents insurance segments?***

**E. S.:** In the current operating environment the sharp competition and the slowdown in crediting activity by banks do have their share, the latter especially in debtor's life insurance, which is the main portfolio written in life business. Regarding the accidents portfolio, the decreasing trend is attributed to travel insurance, which is correlated with the movement of people abroad.

**XPRIMM: *But the growth of the property sector?***

**E. S.:** The growth in the property sector is mainly attributed to insurance of complex property risks of oil searching companies, an activity being recently intensified in the country.

**XPRIMM: *Except the financial crisis, what factors influenced the negative insurance market trend?***

**E. S.:** The most influencing factor is the MTPL pricing transition, especially the Green Card portfolio. Despite a negative trend in some voluntary lines, if not for the MTPL influence, the market could have still experienced a minor growth.

**XPRIMM: *There were significant changes in 1H2012?***

**E. S.:** Most of energies during the first half of 2012 have been spent in the new-draft law on insurance, which constitutes a major change in the market practices and supervision. In this light, during the first half of the year, there have been consultations with different institutions, organizations and the industry following with round-tables, aiming to receive comments and feedback from all the stakeholders. The new law has been drafted in accordance with EU regulation and will improve the consumer protection in the insurance market, as well as putting attention to the risk-focused supervision for insurance companies.

There have been also new appointments in the AFSA's Board in the beginning of the year. From February 16, 2012, Mrs. Enkeleda SHEHI is the new Chairperson of the Board of the Albanian Financial Supervision Authority and Mr. Mati PEPA, the Deputy Chair.

In the first half of 2012 there has been a new entrant in the market, ANSIG non-life insurance company. In such difficult economic times, this new entry in the market is a positive signal that confirms that this market segment is still perceived attractive for new investments from investors. The company is fully domestically owned.

**XPRIMM: *Which are the most important challenges and opportunities for the insurers/consumers in 2012?***

**E. S.:** We still believe that for the remaining part of 2012, insurers will have to manage very carefully their risks and investment activity, in order to be resilient to an already shaping slowdown in terms of overall revenues. Careful management of the resources is crucial in the current environment in order to avoid to the maximum extent possible any unnecessary fluctuations in the technical results.

On the consumer aspect, the competition in voluntary products, despite its negative effects it might bring on market operators due to the sharpened competition, on the other hand might indirectly benefit consumers in certain voluntary lines, since insurers have the incentives to develop more quality products in order to increase their customer's base. Private health insurance lies among the business lines that are growing dynamically and we expect the trend to be sustainable.

**XPRIMM: *What are your expectations for the end of 2012?***

**E. S.:** The year 2012 is expected to be an overall difficult year for the insurance market, linked also with the unfavourable current economic environment. The pricing transition of the MTPL portfolio does play also its role, in taking away from the market its growth potential. The Green card portfolio has shown a negative trend in terms of growth during the first half, which we believe will influence the market growth for 2012. DMTPL on the other hand is experiencing dynamic growth in revenues, mainly due to upward pricing revision of the market operators, following a relatively unstable pricing immediately after the removal of the fixed-tariff regime.

By the end of 2012 a series of important developments are expected, such as the finalisation of the joint project with the World Bank on development of a bonus-malus system to support MTPL liberalization as well as other positive developments, such as the submission of the new draft law in Insurance to support the new regime, i.e. risk-focused supervision of insurance market.