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Enkeleda SHEHI, Chairperson, Albanian FSA

xprimm.com: *How would you characterize the local insurance market evolution last year?*

Enkeleda SHEHI: In 2011 the Albanian insurance industry continued to grow, albeit at a lower rate than one year before. Gross written premiums increased by nearly 2% in the insurance market in 2011, attributed mainly to the increased dynamics in the voluntary insurance market, especially in the life segment. The voluntary insurance has continued to perform quite well, registering a 17% increase from the last year. The removal of fixed tariff regime in MTPL portfolio, in the second half of 2011, was accompanied by a temporary sharp decrease in prices, and eventually took away a further 10% increase potential from the market.



xprimm.com: *Which were the main challenges and what relevant changes were registered in 2011? What about opportunities?*

Enkeleda SHEHI: One of the main challenges during 2011 was the liberalization of the MTPL market in terms of removal of the fixed-tariff regime. This was immediately followed by a sharp decrease in prices, which influenced the overall market performance. The AFSA has been working for years to develop the proper infrastructure for the MTPL liberalization process and at this point in time the challenges for the upcoming period dictate much more attention to this particular segment of the market, which is very important at the same time, given it stands for 45% of the market revenues. So, in September 2011, a joint project with the World Bank has begun, to address some short-term and long-term issues in line with the AFSA strategy. Thus, the project will aim to address several significant issues in order to facilitate transition towards more efficient pricing, such as risk-based pricing. One of the most important aspects is that AFSA should have the right tools to ensure that insurance companies maintain adequate provisions for the liabilities they assume, conceived in two ways:

- Designing a process of verifying if claim provisions are adequate for the known situations; and,
- Designing a process to ensure that businesses and renewable risks are insured at technically acceptable prices.

In addition, the Project will address some enhancements that can be made to the Compulsory Motor Insurance Information Center, also focusing on building the bonus-malus system at the current stage. A strategy for managing the number of uninsured persons is also being developed.

xprimm.com: *What changed in 2011 from a year ago?*

Enkeleda SHEHI: It should be noted that accident and health insurance was the most dynamic line in the insurance market during 2011, with an annual increase by 91% in gross written premiums. The factors resulting in this positive development relate to the increase in the volume of private health insurance premiums offered by non-life companies.

A noticeable growth dynamic was recorded in Life insurance as well, with an increase by 26% in gross written premiums, compared to 2010.

The portfolio that experienced a negative growth was the DMTPL portfolio, about 25% less than in 2010, due to the immediate effect after the liberalization of the MTPL.

xprimm.com: *There were significant changes (decisions / legislation) in 2011?*

Enkeleda SHEHI: One of the most significant legal changes with a direct impact in the insurance business in the country was the approval in July 2011 of the Law no. 10.455, date 21.7.2011 "On some amendments of the law no. 10.076, date 12.2.2009 "On compulsory insurance within the transport sector". These amendments allow the insurance companies to set their own premiums tariffs opening the path to free market pricing.

AFSA has already concluded the draft law on insurance which is going to be approximated with the insurance EU Directives and support the new risk-focused supervision methodology. During 2012, the draft law will be sent to parliament for approval.

One important decision was also the adoption by the AFSA in its October meeting 2011, of the new risk-focused insurance supervision methodology, and its Strategic Implementation Plan. This is a very important strategic line of action, which is going to be implemented in the insurance market in the long run. As a result, the implementation is going to be gradual so as to allow the market and the regulator to coordinate their actions and build the required capacities and infrastructure for moving towards a risk-based supervision regime.

xprimm.com: *The crisis has affected the consumers' opinion about insurance?*

Enkeleda SHEHI: In 2011, the voluntary insurance has shown a high growth dynamics, as much as about 17% more than the year before. In life insurance this dynamic was even higher, around 26% growth from the last year. A major influence on these products comes from the performance of other sectors of the economy, such as the crediting activity by banks, or leasing, which contribute a lot in terms of revenues they generate for some important portfolios, such as property, voluntary motor and even debtor's life insurance, where banks are the primary beneficiaries. Regarding other classes of motor insurance, such as DMTPL, Green Card and Border insurance, due to their compulsory nature, the amount of business is prone to fluctuations only in terms of prices applicable according to a free market regime, with no direct influence of the customer base.

xprimm.com: *In times of crisis, which were the most important changes in marketing strategies of local insurance companies?*

Enkeleda SHEHI: Some of the most important changes that take place in times of crisis in terms of marketing strategies, go to the review of the pricing systems, cutting back administrative expenses, as well as lowering of and constant monitoring of authorization levels for sales personnel. Some companies also do implement more effective premium collection policies and risk selection.

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

Enkeleda SHEHI: During 2012, insurers will have to manage very carefully their risks and investment activity, in order to be resilient to a potential slowdown in terms of overall revenues. During difficult economic times, insurance is amongst the first costs that businesses and individuals tend to cut down, so the market will have to manage very carefully their resources and avoid to the maximum extent possible any unnecessary fluctuations in their technical results. Careful risk selection and pricing as well as more efficient reinsurance agreements and marketing strategies might be among some challenges to consider during this year.

On the consumer aspect, the competition in voluntary products might benefit them as the insurers will 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 is growing dynamically and has managed to meet some market demand.

xprimm.com: *What are your expectations for the end of 2012?*

Enkeleda SHEHI: We expect 2012 to be an overall difficult year, in terms of market growth. A potential slowdown in economic activity due to current difficult economic situation that some strategic trading partners of Albania are experiencing, might also reflect its indirect influence in the economic activity of the country and as a result, to certain insurance portfolios. The major lines of business that are directly related to crediting activity of banks and infrastructure investments in the country might suffer. On the other hand, the transition period that follows after MTPL liberalization might also influence the overall premium revenues during 2012.