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

**XPRIMM:** *What were the trends on the Albanian Market in the first half of 2013?*

**Enkeleda SHEHI:** The insurance sector in Albania in the first half of 2013 showed a negative trend, experiencing a 2.45% decrease in gross written premiums, compared to the same period last year. This decrease is attributed to fluctuations in pricing of the MTPL insurance that has taken place since its liberalization in the second half of 2011. The market continued to be dominated by Non-Life insurance, with a share of 87.52% of the total premium volume. Voluntary insurance premiums marked a 2.17% growth, despite a decline in number of contracts by 16.39%. Life insurance on the other hand recorded a 15.10% increase, compared to the first half of 2012. The market structure was dominated by voluntary insurance, constituting 57.10% of the market gross written premiums.



**XPRIMM:** *Which are the major insurance lines at the moment and which hold the highest growth potential in the future?*

**E.S.:** The most important product sold in the market is the motor third party liability insurance. On the life side, debtors' life is the main product, where banks are the beneficiaries. In terms of potential for future growth, health and life insurance have shown to have a high dynamic for growth in the last years. However, it should be noted that the low penetration in the market (0.67%) could be interpreted as an indication that the market not only is underserved and operating far from its potential, but also in general presents opportunities to unlock in the future, especially in property, life and health insurance.

**XPRIMM:** *Except the insurance market, which other industries were affected by the financial crisis?*

**E.S.:** To a certain extent the merit of having underdeveloped financial sector is that you do not suffer directly from the global financial crisis. This is the case in Albania as the financial institutions were not heavily exposed to toxic assets, which brought down large financial institutions. On the other hand, there is not much going on in terms of cross-border financial activities and the financial sector is relatively isolated. However, in a globalized world and liberalized market we can not say that Albanian markets are sealed off. The global financial crisis had an impact in Albanian financial sector mainly through real economy channel. Hence, the banking market has contracted lending and the loan portfolio quality deteriorated

considerably. In June 2013, annual growth for lending was 1.27% compared to 9.26% in June of the previous year, while the ratio of non-performing loans to total loans reached 24.2% at the end of June, against 22.5% at the end of 2012 and 21.1% against a year earlier (source: Bank of Albania). To pump liquidity in the economy the policy rate is at downward trend, reaching record low at 3.5% by July, 2013. With regard to securities markets and private pension funds the global financial crisis did not had any impact as the only traded securities in Albania are Government Securities. Also both markets are going through structural changes, i.e., new investment funds and pension funds have emerged only recently. These "babies" by default are growing, so both markets experienced positive growth. Yet in the long term the low-interest rate environment and the presence of the general uncertainty will limit the investment appetite, the investment return and the emerging of new investment products.

**XPRIMM: *How would you characterize the "alternative sales" insurance business (brokerage / bank-assurance)? What selling-channel dominates the local market?***

**E.S.:** The main distribution channel remains through agents, while brokers contribute only to 6.5% of premium distribution. There is also a good portion of business generated through banks, mainly in property portfolio and debtor's life, where banks are the beneficiaries due to the bank interest involved, but so far AFSA has not licensed banks to act as intermediaries yet.

**XPRIMM: *How much does a citizen spend on insurance every year? How did that figure evolve?***

**E.S.:** Premium per capita in 2012 was only 23 euro. It has increased at an average rate of 9% in the last five years. Again this illustrates the potential the market has to grow further. In 2007 the amount per capita spent for insurance was 15 euro.

**XPRIMM: *Many of the large international insurance groups are present in the local market. Why is your market an attractive market for foreign insurers?***

**E.S.:** One way to look at it is because of the potential the market has for further growth. Low density and penetration indicators illustrate that fact. The macroeconomic environment and the country's openness toward foreign investments have also contributed to increased interest from foreign investors. The supervision also has been constantly strengthened and the Albanian FSA has continuously embraced the global standards as well as constantly aligning legislation and practices with EU directives. Albania has also a very favorable tax regime, which is a flat 10% rate on profits.

**XPRIMM: *Are there any major legislative changes to be made in the near future that will target the insurance industry?***

**E.S.:** Two major draft-laws in the insurance industry that are awaiting approval by the parliament are the insurance and reinsurance law and the compulsory insurance law in the field of transport, that also covers MTPL. The main impact these laws will have on the insurance

industry will be the introduction of risk-focused supervision of insurance companies by the Albanian FSA and the bonus-malus system in MTPL pricing.