

Chairperson of the Albanian FSA, Elisabeta Gjoni**Albanian non – banking financial sector****Great prospective of growth and development**

Good afternoon ladies and gentlemen, my friends and colleagues!

It is my pleasure to make a presentation at this prestigious and intellectually stimulating forum. This is the third time of Crans Montana Forum in Albania and it is excellent to have this special session on financial sector perspectives. My presentation will give a brief summary of the current stage of the non – banking financial sector, with the focus to large opportunities it bears to largely expand in the near future.

I. Insurance

2007 provided to be an extraordinary year for the insurance market. The operating environment of the insurance companies was overall favorable in 2007. The strong growth of economy and a relatively stable and calm insurance environment provide the backdrop for profitability in these years. The insurance industry was able to take advantage of these favorable conditions to post the high levels of profit.

Although recently improved, market still oriented towards motor compulsory insurances which make around 65% of the total turnover in 2007. Life insurance makes 7% of the insurance market. Insurance penetration increased in 2007: premium per capita was 20 USD compared to 15 USD in 2006, while ratio of insurance premiums to GDP was 0,58% compared to 0.5% in 2006. However, insurance penetration remains in low level when compared to other countries in the region, or in Europe.

It is to mention that the fast development of the banking sector, as well as public investments in infrastructure have contributed in enlarging the property & construction and life insurance portfolios.

Taken the growth, developments and specific events, year 2007 could be considered as the **Year of Insurance in Albania, which paves the way towards a full insurance decade.**

- The minimum capital of insurance companies was adopted as per EU requirements in the level of Eur 3 million, while previously it was Euro 700 thousand Euros. The capital adequacy has a great importance in the management of risk. The Regulatory Authority requires adequate capital, provisions to cover claims and other losses outside the scope of technical provisions. The guaranty fund at the level of 3 mln Euro at a favorable economic climate provides an opportunity for the continuation of the growth with the available capital.
- During 2007, we had the realization of foreign investments in the Albanian insurance market. Uniqa Group, TBIH backed by Vienna Insurance Group, and Aspis Group have now substantial shares in Albanian insurance companies. Full privatization of INSIG is underway and a lot of interest is already expressed by the best markets.
- Insurance growth was 30% in 2007, and it is good to note that voluntary insurances in both life and non life side also increased at the same rate.
- Total of assets in insurance market increased by around 17%, while liquid assets mostly structured in term deposits and government bonds increased by 45%. This shows for a good trend of liquid investments from insurance sector.
- Market solvency increased by 35% compared to 2006.

- The process of insurance supervision was enriched by elements of risk based supervision such as IRIS tests and ratios.
- For the first time we had structural organizations in the form of groups, which required the update in the regulative and supervision system.

Insurance will enjoy a huge development in the years to come.

A lot work has been done to promote insurance products which are necessary for the safe development of other businesses, and vital for the protection of the public interests. Quite soon we expect to have a substantial increase in specific insurance portfolios covering liabilities of oil operators, counstructors, hotel operators, mining, tourism, agriculture, ect. Work has already started to design insurance programs for natural catastrophes in a national basis.

The reform initiated from the government in health insurance will enhance insurance penetration with a range of health products. The first step of medicament reimbursment is expected shortly to be followed by the reimbursement of other primary and secondary health services.

Developments started in 2007 will be further enhanced by the presence of the reputable international investors, who will contribute for a better contemporary approach, good practices and business oriented policies.

II. How do Albanians invest for their own future?

Pensions

Let's consider the following question: Is it true the saying that a nation gets older faster than becomes wealthy in the case of Albania?

This question is very much related to the demographic structure and economical development of a country. Relying into the figures it is obvious that related to the pension area (*refers to the part getting older of the question*) the conditions for Albania are more favorable than other countries in Europe. As you might know Albania has a very young population (average population is 32 years old, more than 2 million people are between ages 15 and 65). Also, other indicator, such as economic growth is considered very much stable during the last couple of years, say 5-7% growth rate per year.

In this context, the young working force able to contribute to develop the economy and generate own incomes can be considered as a great potential force to generate goods for today and save money for their ageing. Besides that, some tax relief and incentives are needed as well. With an appropriate tax policy the Government can encourage people to save voluntarily some of their savings for the future days. The employers should be part of these group savings in the case that the tax benefits are considerable and can be used to better manage their businesses.

Actually there are only three voluntary private pension funds in the market with a total contribution collected of 32 million leks in 2007.

Young population and the growth of economy give a great hope towards the development of the voluntary pensions in Albania

III. Securities

The government securities market is becoming increasingly attractive for the domestic and foreign investors. From a risk point of view, the evidenced macroeconomic stability, including a stable currency exchange rate, enables a beneficiary risk – return combination, considering a thin market so far.

The holdings of individuals and non-bank institution in 2007 were only at 5% of around EUR 3 billion of outstanding total issues. The spectrum of maturities has broadened during 2007, including first time 2 and 5 year emissions, and 7 year bonds issued recently. Domestic issue is nominated mostly in leks, but MoF has issued 2 year securities in Euro as well, and is considering issuing Albania's first benchmark Eurobond in international capital markets in 2009.

The trading infrastructure is improving. Investors can easily access the primary auctions through local dealers (banks). Undergoing upgrades in the clearing and settlement arrangements are expected to significantly improve volumes in the secondary market in the future.

IV. Regulatory aspect

The establishment of the FSA as per the best international models, is a clear signal of consolidation and standardization of the regulatory and supervisory regime, which will enable the sound development of the non – banking financial sector. To supervise does not any more mean mainly to lead into confrontation with others, neither on the real battlefield nor in economics, but to guide the direction towards universal rule of the law.

The efforts paid by the FSA in enhancing the regulation and supervision of the markets are very well combined by the introduction of modern integrated IT platform, which include various IT systems such as Motor Information Center, Web based off site reporting for insurance and pensions, GSRM, etc.

Increasing the level of experience and expertise has been one of the most important targets from us. The decision to start an investment in the financial sector facilitates by the presence in the country of ranges of qualified professionals such as: accountants, actuaries, claims adjusters, underwriters, etc.

V. Why to invest in the Albanian non-banking financial sector

Political stability

- EU and NATO integration are the main goals of the country

Positive economic outlook

- Increase in GDP and control over inflation
- Public investments, infrastructure
- Expansion of the banking system
- Optimistic expectations for the development of specific sectors like: energy, construction, tourism, mining, etc.
- Improved environment for businesses, tax incentives

Better regulation & supervision

- FSA established as per the best models of integrating the non-banking financial supervision
- Review of regulation in compliance with international standards and EU directives, aiming to enhance the development
- Inclusion of risk based supervision elements, supported by IT modern platform

Increase of financial experience & expertise

- Increasing number of financial experts, well educated and trained
- Motivation of specific professions such as actuaries, accountants, claims adjusters, etc.