

MICROINSURANCE PRE-FEASIBILITY STUDY

ALBANIA

Prepared for:

Kreditanstalt für Wiederaufbau (KfW)
German Financial Cooperation

Development of Instruments for Financial Cooperation
in the Field of Microinsurance

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List of Abbreviations

AISC	Albanian Insurance Supervisory Commission
ALL	Albanian Leke
AAI	Association of Albanian Insurers
DFID	Department for International Development (UK)
EU	European Union
GoA	Government of Albania
GPA	Group Personal Accident
HII	Health Insurance Institute
INSIG	Insurance Institute of Albania
MADA	Mountain Area Development Association
MFI	Microfinance Institution
MoF	Ministry of Finance
MoH	Ministry of Health
NGO	Non-Governmental Organisation
PHRplus	Partnership for Healthcare Reform plus
SII	Social Insurance Institute
US\$	United States dollars
USAID	United States Agency for International Development
VAT	Value Added Tax

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Executive Summary

The CGAP Working Group on Microinsurance notes, “*Microinsurance* is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.” In Albania, there is essentially no formal sector microinsurance product available on a voluntary basis to help low-income families manage their risk. Indeed, voluntary risk management products are even limited for the middle and upper markets. The insurance industry in Albania has mostly relied on mandated insurance purchases to make their money.

Of the five insurers, four have been operational for five years or less. These have developed and proven their operations and now should be ready to improve their product lines to better address the needs of their markets, plus the low income market. Two of the newer insurers have already surpassed the original parastatal insurer in terms of premiums.

The insurance market was rapidly growing until it went flat in 2002 and 2003. Insurers are going to need new strategies to continue that growth, but there has been a lack of innovation in this market. Some are trying to expand their property market, while others are lobbying local governments to make more products mandatory.

Albania does have a very significant social protection program that covers pensions, primary health, unemployment, death of a breadwinner, disability, maternity cover, and economic assistance to help the poor. This cover is mandatory for all working people with a total cost of 41.9% of ones salary. This is split with the employer, and paid in full by the self-employed. The cover is somewhat limited.

Upper-low income people from BESA report in qualitative studies that they are interested in property protection, additional health care, and life insurances. This demand comes even against a backdrop of distrust of local insurers, or limited information about insurance.

The legal and regulatory environment is improving with the new law expected to be in force by the end of this year. However there are several issues that will need to be addressed in order to improve the efficiency of microinsurance processes, incentivise the market, and improve the investment opportunities. Several issues in the new law will have an impact on microinsurance although there is no particular reference to microinsurance.

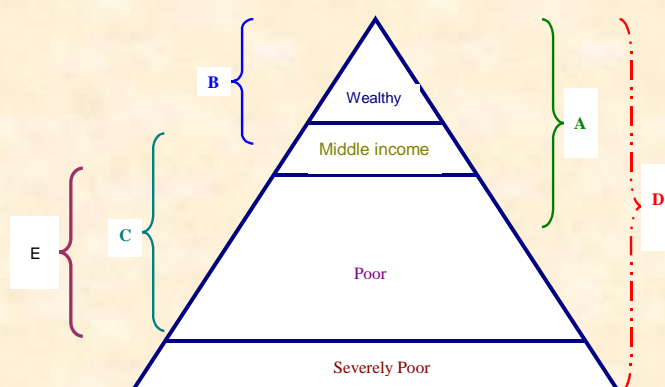
In order to develop a microinsurance sector people – the market, insurer staff and management, intermediary staff and management – will require significant training to understand insurance and the microinsurance market. Demonstration products could be developed along with marketing strategies for entering the low-income market. These would be useful to the five non-life insurers. Because there is only one life insurer, it would help significantly if there were a new one to focus primarily on the low-income market for which there appears a significant market. This would be done as a means of serving this population as well as demonstrating to the other insurers how to work successfully with them. These efforts should help to spark innovation as well as show insurers how to respond to that spark.

There is a large market void here that could be minimised through the addition of a life microinsurer, and demonstration products for the non-life insurers.

1. Microinsurance¹

1.1. *Where does Microinsurance fit within the Insurance Sector?*

In Albania, the supply of insurance, in general, is limited. The focus of most insurers has been the compulsory market for auto third party and others. At the high end, some wealthy people are obtaining property insurance, few get life insurance, and hardly anyone gets health cover because of the government's social security programs, and the ease of going out of the country for premium care. Some companies are offering pensions on their own for their management and employees. The middle- and some of the low-income groups usually just obtain the compulsory cover, with some of the middle income getting additional comprehensive cover for their automobiles. Between the Social Insurance Institute (SII), and the Health Insurance Institute (HII) they cover a broad range of risks for almost all people. Informal risk management is limited to friends and family.



Formal sector insurance companies focus on the area identified as “A” with limited traditional insurance products. Their focus in this broad market is compulsory products, and primarily the third party auto cover. This is the only reason they reach down market into the “poor” group. Other than this, they provide little even to the middle and upper income groups, identified as “B”. 83% of the insurance sold in Albania is compulsory from one authority or another. There has been no significant effort by them to come down market, or even for most, to divert from the basic product line. One is focusing a bit more on the property market but for the upper market. There are no microinsurance products being offered by these companies at this time except for some credit life cover through MFIs and Banks (but these are just intended to protect the financial institutions).

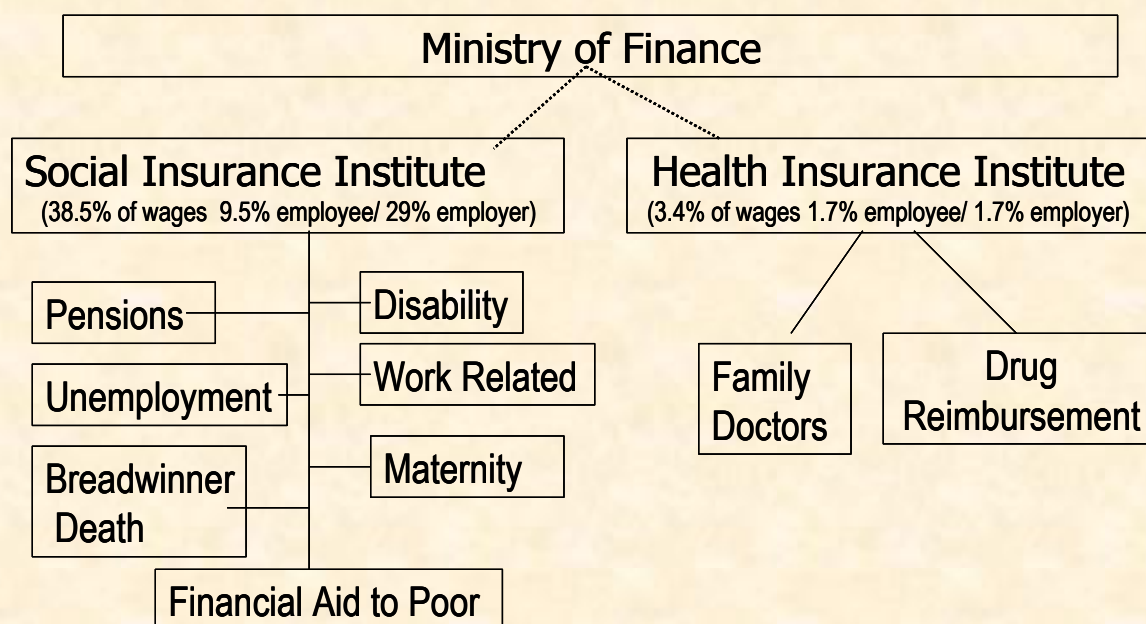
The aggregate market for microfinance institutions is in the area identified as “C”. The range is extremely broad since it includes both institutions that work with rural mountain people, as well as those that work in the micro- and small-scale markets. Many of these institutions require clients to purchase credit life insurance as a prerequisite to a loan. Some also require property insurance. These covers are intended to act as additional security for the bank and do not provide additional benefits to the insured.

Area “D” indicates the range of products offered by the social and health insurance system of the government. These are extensive and include cover for unemployment, death of a breadwinner, pensions, dependent care, disability benefits, primary health

¹ Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use microinsurance, where it is available, as one of several tools to manage risks.

care and medications, and direct poverty abatement payments called *Ndihme Ekonomike*.

The structure of the Social Insurance and Health Insurance Institutes and the products they offer are outlined below.



The potential market for microinsurance is indicated as “E”. This area is smaller than that for the MFIs and Banks because generally middle-income people have access to appropriate insurance products. Thus, these are not included in the microinsurance market.

1.1.1 What are some microinsurance products?

In general, there are several somewhat common microinsurance products to address the specific needs of the low-income population. These typically cover risks that are relatively costly and with limited and uncontrolled frequency. Such products would include various components of health insurance,² life (including attached long terms savings or investment products), disability, accident, property cover, even policies for livestock, and against too much, or too little, rainfall. Some international examples of these follow.

First, it is important to recognise that MFIs can have strong tools of risk mitigation within their product lines. To help their clients with risk management they should be offering emergency loans and specialised savings products (where legal). These could be the first line of defence for low-income clients of these companies. Effective products to address these opportunities are not significantly available from MFIs or banks in Albania.

In Bangladesh, Delta Life offers life microinsurance with an endowment policy to well over one million very low-income individuals throughout their country. These policies offer low value endowments (US\$100 – 2000) after a period of fifteen or twenty years.

² Please note the Glossary of Selected Insurance Terms in the final section of this paper.

This savings is tied to a life insurance product that completes the endowment upon death.

In Uganda, the American International Group (AIG Uganda) offers a group personal accident (GPA) policy through MFIs that covers almost three million lives (thirteen percent of Uganda's population). This policy is linked to MFI loans and provides credit life, permanent and temporary disability, and accidental death benefits for clients, their spouses, and four children. Using MFIs as their delivery channel has allowed for rapid and efficient growth.

In Kenya, Africa Air Rescue (AAR) Health Services offers a comprehensive and an in-patient only health insurance product through one MFI currently. This product provides access to several AAR health care facilities, and a number of hospitals in their market area.

In India, property insurance is offered by SEWA Bank covering the homes of very low-income clients. In addition, weather index “insurance” is offered by ICICI Bank and their insurer in agricultural areas to protect against too little or too much rainfall in a way that virtually eliminates the moral hazard of traditional crop insurance.

1.1.2 How is microinsurance delivered?

Several models of microinsurance delivery are in use internationally. These models fall into the following groups:

- o **Partnership model:** Where an insurer is paired with a bank or MFI to offer effective and efficient microinsurance products. In this model, the insurer manages the insurance risk and the financial organisation acts as the agent for the product(s). Several banks use a less structured version of this model in Albania whereby the bank requires certain coverage in order to obtain a loan, but does not sell the product. In this case, clients must find the insurer and conclude the insurance transaction with them before finalising the loan.
- o **Community-based model:** This model is prolific in numerous countries, usually focused on health financing. Organisations including International Labour Organisation (ILO) and the Centre for International Development and Research (CIDR) promote this model and work with communities to help them develop and administer a risk fund. The multiple responsibilities, limited capacity of local people, and limited support make these programs difficult to reach organisational sustainability.
- o **Provider model:** Some mission hospitals develop and offer their own insurance schemes with community groups. These have been difficult to manage because insurance skills are limited among hospital administrators. Most of these programs are run through the books of the hospitals, and are unable to reasonably provide data on the sustainability of these schemes.
- o **Full service model:** In some cases, regulated insurers are developing products that effectively help them move down market without a marketing partner. Delta Life (mentioned above) has done this with its endowment life policies. In other cases, such as SEWA in India (up to 2001/2) the MFI itself takes on the

insurance risk. This holds several serious risks for the MFI, not the least of which is that, as in Albania, banks cannot take on insurance risk.

- o **Social protection models:** In these models the government takes on the responsibility of insuring its citizens (or some portion of them) using “contributions” usually from the employed population. Albania provides health care and pensions in this manner. However, people note that now there are long queues for health care, and although some of the services are “free” there are often significant non-receipted payments, and it is generally acknowledged that these facilities have very limited supplies of necessary drugs (usually the most expensive aspect of the treatment) which people must purchase from pharmacies.³

The key consideration with these models is: Where does the risk lie? In some of these models, the insurance risk is left to be the responsibility of a party that is not likely capable to effectively manage. Any intervention in microinsurance should both ensure proper “placement” of the risk, and support the government’s efforts at social protection.

1.2 How does Microinsurance fit within the broad policy environment?

In broad terms, the Government of Albania (GoA) is very interested in helping the low-income population manage risk. This is clearly evidenced by their efforts concerning health care financing. In general, the government is focusing on improvements to health care financing and pensions, while at the same time considering several additions to the mandatory insurance regimen. These include, mandatory liability insurance for petrol stations, construction firms, and other businesses deemed a potential threat to others. Reportedly, there are also discussions nearing conclusion to require homeowners and renters to purchase fire insurance in certain municipalities (with the expectation of this requirement spreading throughout the Country. In this way, the policy is to have people’s risk managed through edict. The private sector insurers will offer these covers.

At the same time, there is a strong recognition that the insurance “infrastructures” are in significant need of repair. The regulations are patched together over a period of years and the supervisory authority is still building capacity. The insurers have been reliant on mandatory insurances, and none has really looked at the risk management needs of the low-income people in Albania. The law (both the old and the new) make no mention of microinsurance or specialisation in the low-income market.

The general Insurance Supervisors and the Ministry of Finance both noted the importance of getting more risk management options out to the poor especially if they are designed for that specific market. Thus, the decision makers are receptive, and the legal requirements (discussed below) do not hinder entry. Such products will help to complete the provision of insurance and should help stimulate the other insurers.

There is a role for microinsurance in this market, and there is virtually no player providing any such products within this market. Microinsurance fits well within gaps in the current insurance market structure.

³ This leads to an array of problems because people will purchase just what they can afford, and frequently this is not a complete regimen of anti-malarials, or antibiotics. Partial dosages have the potential to breed resistant strains.

2. The Insurance Sector in Albania

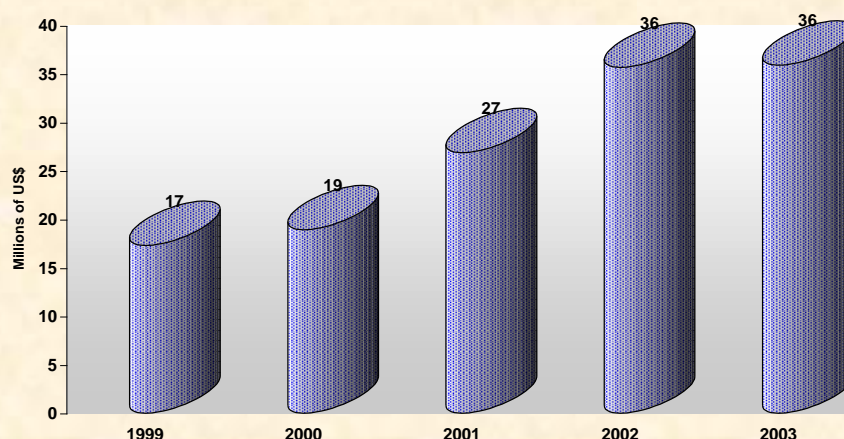
The insurance sector in Albania is very new with four of the five insurers in existence for five years or less. They have been operating under a law that all concerned see as antiquated and inappropriate for the country. This has led to the development of a completely new insurance law that is based on European Union (EU) standards. A listing of the significant events in the history of the Albanian insurance industry is provided below in Table 1.

Table 1: Significant Events in the History of the Albanian Insurance Industry

Year	Event
1991	The “Third Republic” of Albania begins
	The Insurance Institute of Albania (INSIG) commences as state owned composite (life and non-life) insurer
1996	The “Law on Insurance and Reinsurance Business” is enacted.
	Insurance Supervisory Commission mandated in the Law
1997	Pyramid Scheme collapse
1999	Sigma (“Grand Insurance”) commences operations as a non-life insurer and the first private insurance company in Albania
	SIGAL (“Albanian Insurance”) commences operations as a non-life insurer
2001	Atlantik Insurance commences operations as a non-life insurer
	INTERSIG commences operations as a non-life insurer
2003	Association of Albanian Insurers (AAI) commences operations
	Work on new insurance law commences
2004 (?)	New insurance law based on EU standards is estimated to be enacted by the end of 2004.
	INSIG prepared for privatisation that should occur during the year

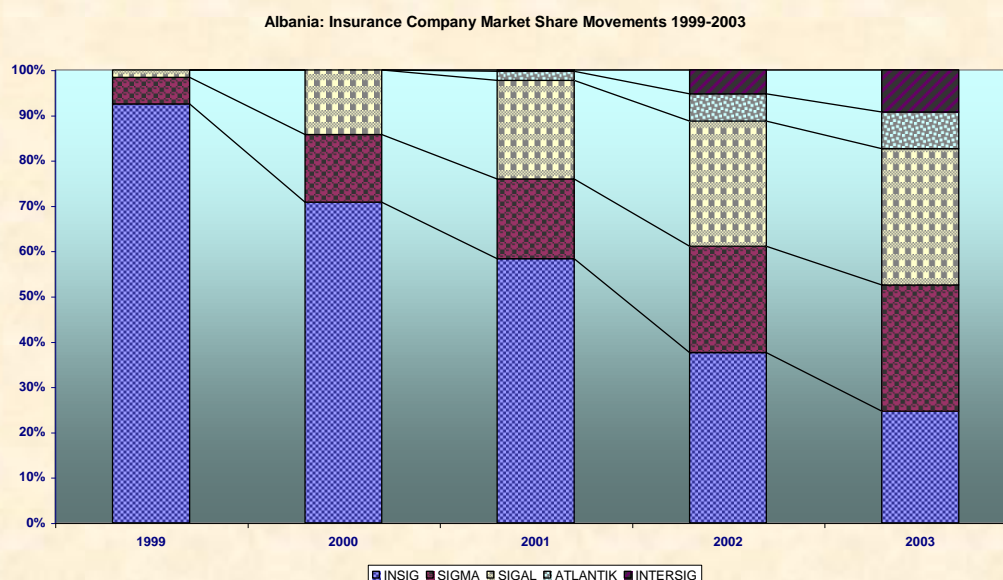
The market for insurance had been growing significantly until 2002 when it stagnated. The Chart below shows the growth in annual premiums for all Albanian insurance companies for the period 1999-2003. During that period annual volumes more than doubled to US\$36 million with large improvements in 2001 and 2002. This growth matches the timing on entry of the new, private insurance companies.

Albania: Total Annual Insurance Premium Volumes



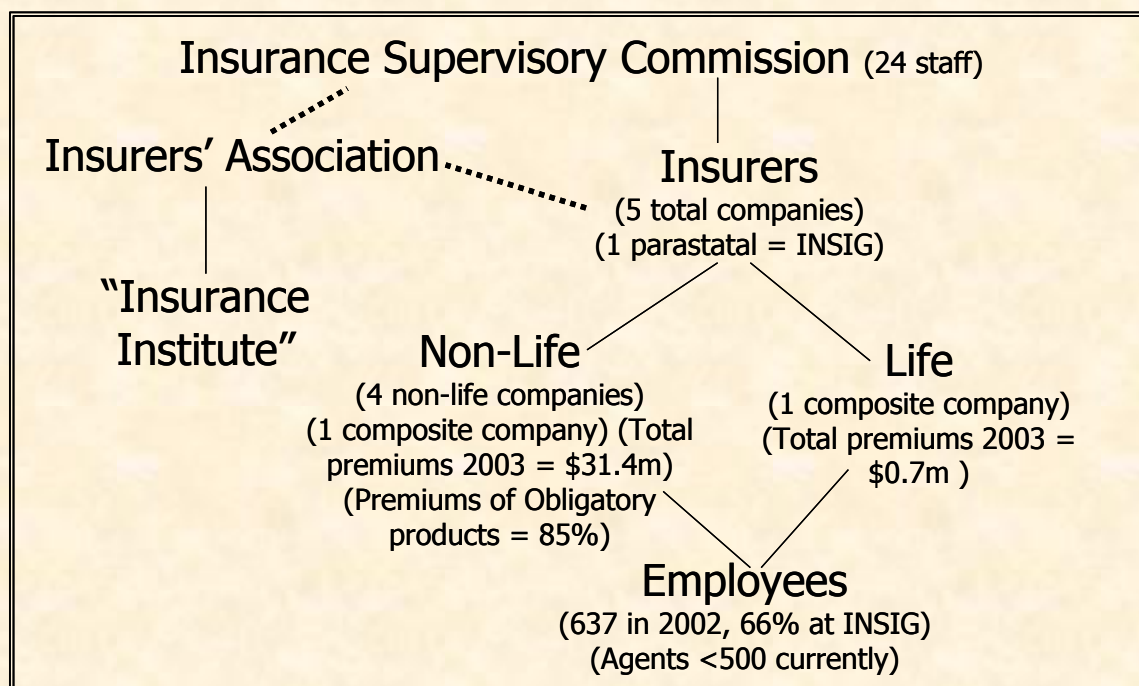
The chart below shows how the private insurance companies have both eaten into the market share of the parastatal. Coupled with the expanding market noted above these

private insurers have overtaken INSIG with rapid growth, while the parastatal has fallen to number three in market share. This is significant to show the general strength of these insurers.



Production figures for the five insurance companies for 2002 and 2003 are provided below. These show total premiums by type and market share for the insurers. Note the largest increase in the motor policies.

The structure of the Albania Insurance Sector, headed by the Insurance commission is as follows:



Albanian Insurers: Annual Premium and Market Share **2003**, by Product⁴

Companies	Total	Motor	Property	Accident and Health	Life
INSIG	24.7%	22.0%	34.8%	19.8%	100%
SIGMA	27.8%	30.9%	11.3%	22.8%	
SIGAL	30.1%	27.3%	46.8%	43.4%	
ATLANTIK	8.1%	9.1%	2.7%	12.1%	
INTERSIG	9.3%	10.7%	4.4%	1.9%	
Volume (millions of ALL)	3,827.5	3,034.6	571.4	135.3	86.2
Volume (millions of US\$) ⁵	31.4	24.9	4.7	1.1	0.7
Percentage of total business	100%	79.3%	15.0%	3.5%	2.2%

Albanian Insurers: Annual Premium and Market Share **2002**, by Product⁶

Companies	Total	Motor	Property	Accident and Health	Life
INSIG	37.6%	29.9%	44.6%	30.8%	100%
SIGMA	23.5%	29.5%	8.6%	16.6%	
SIGAL	27.6%	26.7%	42.1%	39.8%	
ATLANTIK	6.0%	7.0%	3.5%	12.5%	
INTERSIG	5.3%	6.9%	1.2%	0.3%	
Volume (millions of ALL)	3,803.7	2,778.7	633.8	106.2	285.0
Volume (millions of US\$ ⁷)	27.1	19.8	4.5	0.8	2.0
Percentage of total business	100%	73.0%	16.6%	3.0%	7.4%

Even though there has been growth in the industry, the penetration in the market has been weak, though improving. The chart below, shows the growth in the insurance penetration and density rates. These are common measures of an insurance industry's strength, and are helpful in comparisons among countries (I will get some ratios from other countries to include here).

The insurance penetration ratio measures the value of total premiums received by insurance companies against the GDP of a country. This helps in understanding how significant the industry is in comparison to other inputs to GDP. For Albania, this ratio has doubled from 0.3% to 0.6% over the period 1999-2003.

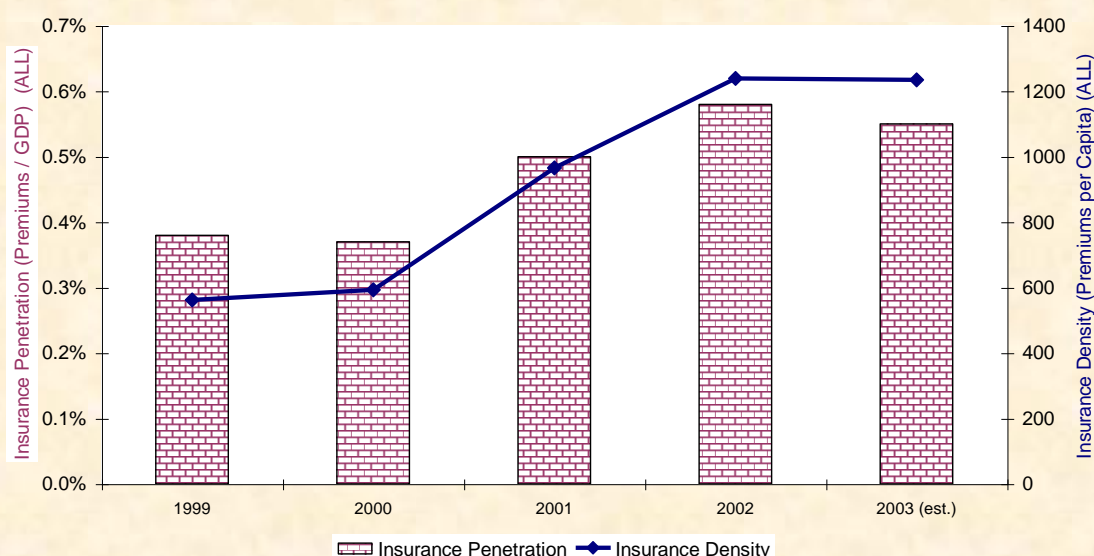
The insurance density ratio measures insurance premiums against the population of a country. This helps in understanding how effectively a country is covered and makes a good indicator of improvement in the industry. In Albania, this measure has experienced a less dramatic change, and in fact has deteriorated slightly in the estimate for 2003. The 1999 to 2003 change is about 38% with about 1,100 ALL (US\$10.3) per person, compared to Uganda in 2002 at US\$1.19. Comparative insurance penetration and density tables can be found in Appendix 5 and 6, respectively.

⁴ Data taken directly from translated version of draft (?) insurance report for 2003.

⁵ Average exchange rate for 2003: 1US\$ = 121.86 Leke (source:2003 Insurance Report taken from average exchange rate of the Bank of Albania. (Note: Euro1=137.51 for the same period from the same source.)

⁶ Source: Annual Supervisory Commission, Annual Statistical Report, 2002.

⁷ Average exchange rate for 2002: 1US\$ = 140.15 Leke (source:2002 Insurance Report taken from Annual Report 2002 of the Bank of Albania.

Albania: Key Insurance Industry Ratios 1999-2003

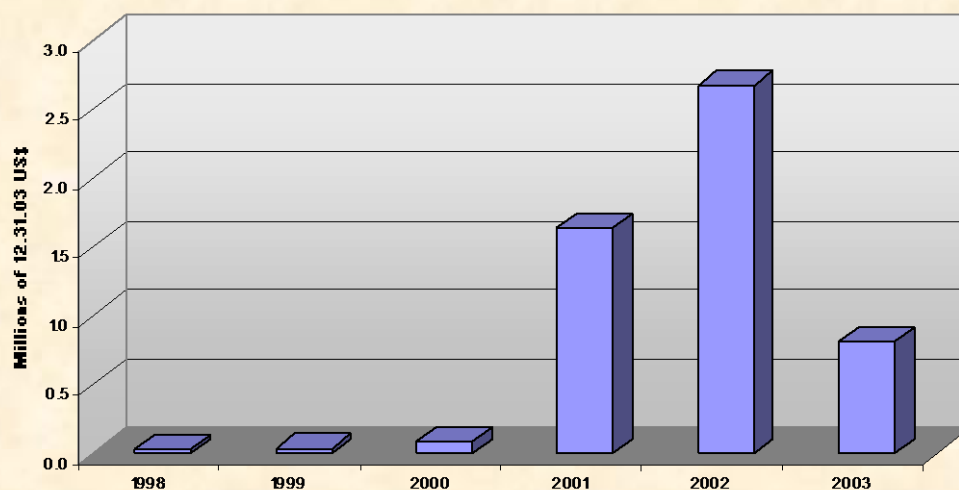
This growth and improvement has actually had more to do with the volume of compulsory business that the insurers are writing. The table below lists all insurance products available in the Albanian market for 2003. These are distinguished by policies that were compulsory by some authority (the Albanian government, banks, and / or other governments), and those that were at least in part voluntary. The table shows that 83% of all policies sold in 2003 were compulsory, and only 17% voluntary. It shows that there is rather little being done to attract voluntary policyholders. The ability to make money on compulsory policies has limited the incentive of the insurers to move away from this market with specialised products that would expand the market.

It may be that with five insurers all vying for the compulsory business the market will become too small and push insurers to develop more market responsive products. Indeed there are two paths being approached by insurers to expand the market. One notes that they are beginning to focus on property insurance, which is currently voluntary. Others are working to convince the city governments to increase the number of compulsory products to include fire, liability, and maybe even life (though they were not yet life insurers). This latter “strategy” is actually bearing fruit as the Tirana City Government is working to require all dangerous businesses to carry liability insurance or lose their permit to operate.

Albania: Insurance Products and 2003 Premiums Paid on Them (millions of US\$)		
Motor	Compulsory	Voluntary
Kasko (auto comprehensive)		1.2
Third Party Liability	19.2	
Green Card (over border cover)	5.5	
Border Policies	2.2	
Provisional Policies	0.3	
Property		
Marine		0.3
Air		0.7
Fire		1.7
Burglary		0.1
Cash		
Engineering		0.2
Ag and Livestock		0.0
Liability		0.2
Guarantee and Credit	1.6	
Other		0.6
Personal Accident		0.3
Travel Health	0.9	
Life		0.8
Sub-Totals	29.7	6.2
Percentage of total	83%	17%

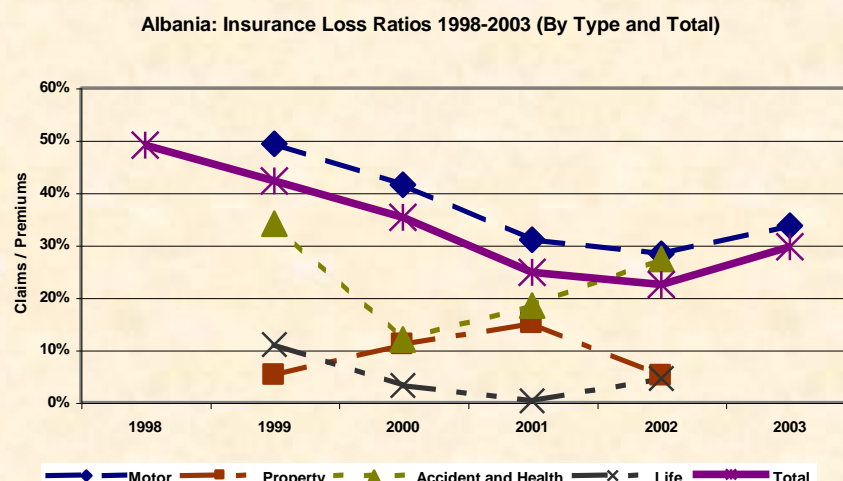
Note from the list of products the dismal performance of life insurance. There is currently only one life insurer, INSIG. Their performance in life insurance is shown in this table.

Albania: Total Life Insurance Premiums 1998-2003



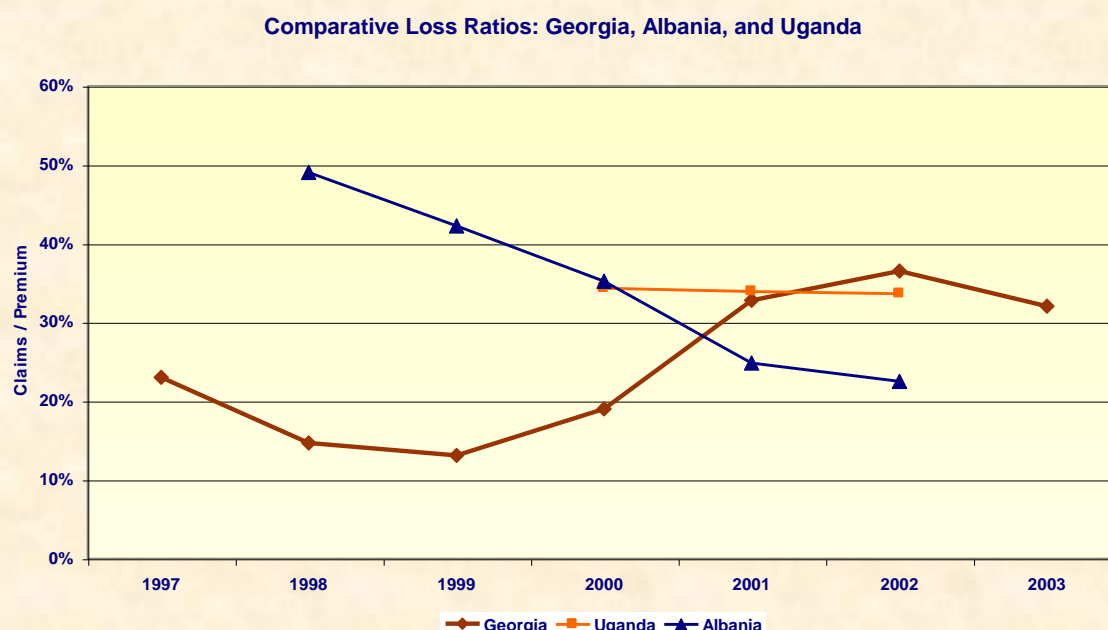
There was a huge jump in production in 2001 and 2002, evident from the chart below, when the government ordered two large parastatals (one was the Albtelekom) to provide life insurance for all their employees. In 2003, these clients did not renew, and the balance is mostly related to a few companies. There simply has not been much effort in bringing the life insurance policies to the people. Even now, INSIG only sells to groups with more than twenty people. Thus, effectively, the only medium and large companies have had access to life cover. Given the reluctance of Albanians to joining groups, it is unlikely that such a strategy will ever provide such services to the low-income market.

The industry has a very health, maybe too health, loss ratio averaging about 30% in 2003. The table below shows the loss ratios for the four major insurance categories, and the weighted average.



The motor policy has paid between 30% and 50% over this period. However, the life and property markets have shown to be very profitable to these insurers. Maybe this is why one of the insurers is intent on focusing on this product. As a benchmark, though maybe not applicable, US insurers aim at loss ratios of 70% for property cover, and 50% for term life insurance (which most of this is). Do note that the US insurers are generally much more efficient because of their market size, thus, for Albania the benchmarks for the loss ratio should be somewhat lower. Another mitigating factor is the new entry of two insurers in 2001 that would bring down the efficiency (i.e., a greater part of premiums would be absorbed in administrative costs).

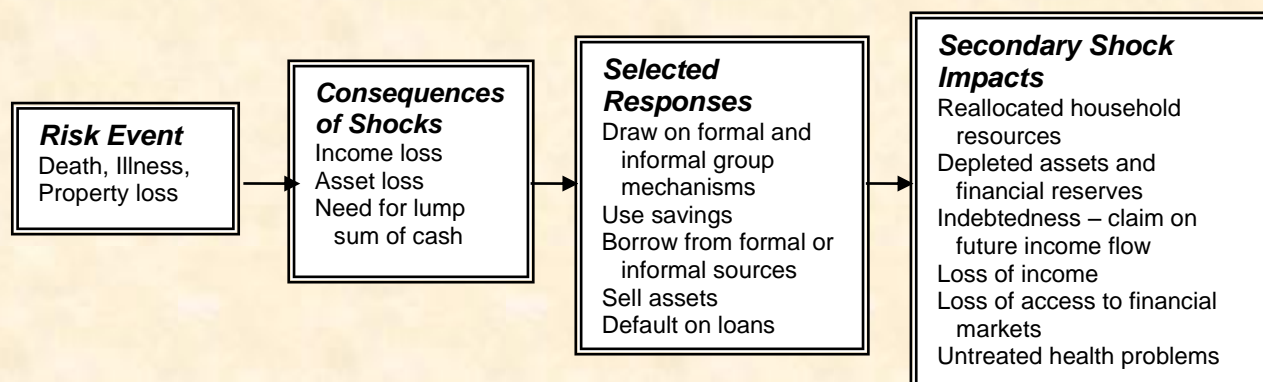
Total loss ratios compared between the different target countries of this overall study are shown below. Where Uganda is flat, and Georgia is increasing, Albania's loss ratio is steadily declining. This suggests that Albania's insurers are actually becoming less likely to pay claims, or that their overheads have gotten out of control. Neither case is positive for the market, though it also suggests significant profits.



In general, this is an industry that is not working at the potential of this market.

2.1. Risk management options for the poor⁸

When low-income people suffer from a risk event, a series of consequences,



responses, and impacts follow. These are outlined in this diagram. These low-income people need mechanisms to help keep them from losing everything. Few risk management options are available to low-income households in Albania.

2.1.1. MFIs and banks

MFIs and banks have a great opportunity to provide risk management tools to the low-income market because they are already conducting financial transactions within this market. Occasionally these institutions will offer specialised savings products that are used only for health care crises, others for weddings, and still others for education. Loans can and often do get used to fund crises but this use is dependent on the timing for the loan. Some institutions basically pre-qualify borrowers for emergency loans and then have a system where people can access them when there is an emergency.

⁸ "MicroInsurance Centre Briefing Note # 6: Financial Risk Management Tools for the Poor." Monique Cohen and Michael J. McCord, January 2003.

2.1.1.1. Savings

NGO MFIs are not legally permitted to take savings. Bank MFIs provide access to savings, but do not appear to have specialised emergency savings products. ProCredit Bank is expanding rapidly, and the Savings Bank now has a new owner that might address these gaps. The Savings and Credit institutions have more flexible access to savings because they are all locally managed. One institution, American Bank, is said to have a specialised savings product for university education, and they cover the remaining balance if the depositor dies.

2.1.1.2. Emergency Credit

There appear to be no specific emergency loans available from the MFIs and Banks in Albania. However, given the right collateral and other requirements, several of the banks and MFIs are able to disburse loans reasonably quickly, such as ProCredit Bank, and BESA.

2.1.2. Informal structures

In Albania, informal structures outside the extended family are limited. It seems that after so many years of being forced into groups, people have become more individualistic. Thus, informal structures such as Rotating Savings and Credit Associations (ROSCAs) that are typically found in other countries are not apparent here. Individuals and families rely on their extended families, or close neighbours and friends.

These risk management options available to low-income families could be improved if there were commercial insurance options that responded directly to their needs. The options now are limited, but there is capacity within the market to begin development along this path. The question is simply the determination of the current insurers.

3. The Demand for Risk Management Services in Albania

The World Bank in their 2003 Albania Poverty Assessment identified a “first ever” poverty line for Albania, set at 4,891 ALL (US\$46) per capita per month. They note that about 25% of the population (780,000) are living below this income level. Further, they note that there is much sensitivity to changes in the poverty line because a large portion of the populace lives near this level. An increase of ten percent in the poverty line increases the percentage of people falling under it from 25% to 50% (or 0.78 to 1.56 million people). This effect is also seen when the poverty line is decreased by ten percent. The World Bank concludes this discussion by noting, “small negative and positive shocks will result in more than proportional changes in poverty.”⁹ This suggests that helping people manage the shocks that push them into poverty can have a very strong impact in stabilising the household economic status, and keeping people out of poverty.

3.1. What types of risks are good candidates for insurance and why?

“Not all risks are insurable. There are seven basic insurance principles that determine whether a loss is insurable:

1. The loss must occur by chance, and not be caused intentionally by the insured.
2. The loss must be definite, with reasonable confidence that the loss indeed occurred, and its loss must be measurable.

⁹ World Bank. Albania Poverty Assessment, November 5, 2003, p.37.

3. The probability of the loss occurring must be calculable as this is a key component in setting the premium.
4. There must be a large number of similar insured units exposed to the risk because of the law of large numbers which states that the larger the sample observed or studied, the more likely accurate the estimate or prediction.
5. The loss must not be catastrophic, creating losses for large numbers of insured at the same time as costs might be beyond the insurer's ability to honour claims. An insurer can avoid huge losses by means of reinsurance or the transfer of some or all risk to other insurers.
6. The policyholder must have an insurable interest in the event, and this event must cause a genuine loss to the policyholder. Ownership of property and family or financial ties of a beneficiary are two ways of establishing an insurable interest.
7. Premiums must be affordable.

These fundamental principles guide, on the most basic level, what can and cannot be normally insured. Thus, for example, a non-suicidal death can be insured, while school fees or marriages normally cannot.”¹⁰

In terms of microinsurance, the practicality of selling and managing these products requires simplicity, innovative premium payment mechanisms, and the ability to implement effective controls against moral hazard, adverse (or anti-) selection, fraud, and overuse. Because of these, the available number of options for more complex products is proportional to the insurance specific management expertise available. For example, an MFI might be able to offer basic credit life insurance on its portfolio, but it would take an insurer with health care financing expertise to offer health insurance. Because of this, the most prevalent microinsurance in Albania as elsewhere is credit life, followed by other life covers (where a settlement is made to beneficiaries), and some health cover and (very limited) property insurance. What can be offered is directly related to a combination of the demand and the institutional capacity.

In terms of health insurance, an additional fundamental input is required - at least one provider of quality health care services. Without available quality services, insurance cannot reasonably be sold. The purpose of insurance is to help people manage risks. Sending them to poor quality facilities will have a negative impact on them through poor care, and will be more costly to the insurer due to additional costs related to the poor care. This is a limiting factor to growth (especially geographically). Generally, public hospitals are not seen as options for insurance because of several issues which include: quality of care, the need for un-receipted payments (or “gifts” in the Albanian case), limited confidence in financial arrangements with such hospitals, and difficulties in managing the necessary controls.

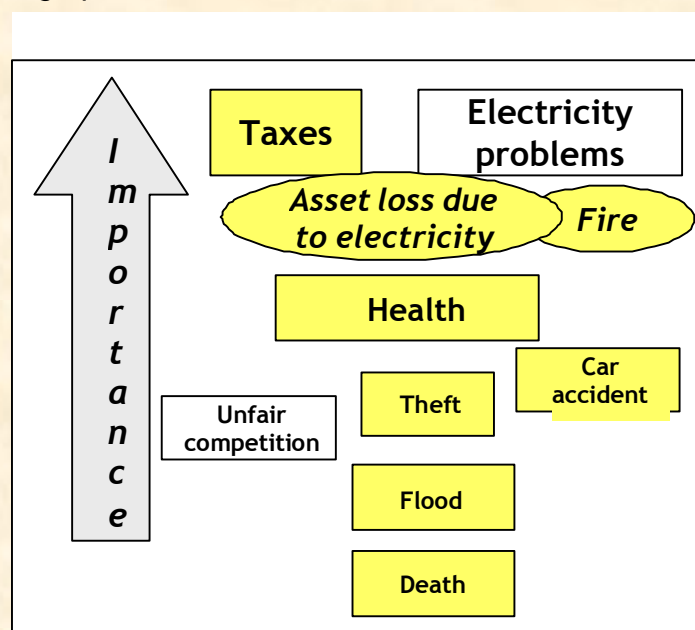
3.1.1. *Risk in the Context of Albania*¹¹:

A risk is considered important if the family well-being and security is reduced significantly when the family has to generate necessary lump sum of money to cope with the risk. Considering both development and business imperatives, it makes sense to develop microinsurance products only for the most important risks faced by the poor.

¹⁰ The Working Group on Microinsurance. “Preliminary Donor Guidelines for Supporting Microinsurance”. October 2003, pp 27-28. Accessible from www.microinsurancecentre.org.

¹¹ The contents of this section and its sub-sections are taken from: Szubert, Dorota. Understanding Demand for Microinsurance in Albania: Results of an Exploratory Quantitative Study. The Microfinance Centre for Central and Eastern Europe and the Newly Independent States. March 2004.

Being asked about risks, respondents focused most attention on structural risks such as taxes and electricity shortages (mentioned in all the groups). The other relatively less relevant structural ones are those associated with unfair business competition and high prices of raw materials.



The figure on the left depicts results of Risk Importance Matrix¹². Those not coloured are not considered insurable.

Evidently, people also cope with other problems such as corruption or poor living conditions due to bad quality of building materials.

The research mostly focused on life cycle and crisis risks that could potentially be insured. In this context, asset loss due to electricity problems, fire¹³, health problems, theft, car accidents, and flood were

the most important risks indicated by study participants.

The information for this section on risk is based on qualitative research done in Albania. For a discussion on qualitative and quantitative risk, please see Appendix 9.

3.1.1.1 Asset loss due to electricity problems: frequent and severe

Property loss is mostly caused by short-circuits due to breaks in electricity supply. According to respondents this risk is important as electricity shortages happen almost every day thus the possibility of the property loss or damage increases: *“Three of my refrigerators have been destroyed in three years”*.

Moreover, the loss affects the every day use of appliances or equipment that is necessary to run a business thus decreasing the business income.

Respondents, particularly living in smaller towns, do not have efficient coping mechanisms to face this problem. According to them, a power generator is the best solution, however only a few of them can afford it. Because of both their purchase and maintenance costs it is possible, if at all, to buy one only for business purposes while the home may be still at risk.

3.1.1.2. Fire: one of the most frightening risks due to potential scale of loss

Although this risk is not very frequent,¹⁴ respondents were more afraid of it as one may lose all their assets in the fire and become a beggar. In smaller towns people mentioned that such was the fate of families affected by house fires.

¹² Some risks are not presented as the Risk Importance Matrix was conducted only during chosen groups.

¹³ In some groups fires and property loss due to electricity problems were not mentioned directly, people included these risks into electricity problems, thus in the Figure they are marked in the circles.

¹⁴ Shkodra district is said to be the area with the most fires in Albania. They are reported to experience about one fire per week. No other district is said to be nearly as fire prone.

In the case of such all-consuming fires, there are no efficient coping mechanisms. Sums borrowed from friends and relatives and financial savings can only cover part of the loss, and once the business assets are lost, it is very difficult to generate more income.

3.1.1.3. Health problems

Small health problems occur relatively frequently, particularly in the case of families with children. The impact of such problems is usually more severe for poorer families. Illnesses that are more serious are rare.

Regarding the impact of this risk it is mostly considered at the business level – illness means limited capacity to run a business. Some differences regarding the size of the enterprise and wealth status in attitudes towards health problems were observed. Health problems are mentioned to be of higher priority to those operating bigger enterprises, as once they are ill they have to hire someone to keep the business going. This increases the costs. Therefore, this group uses *ex ante* mechanisms such as regular examinations by doctors or vaccinations.

Poorer respondents with smaller businesses consider health problems not to be so important. Their businesses are usually conducted by the whole family, if one of them is ill, the other is in charge. However, this group is very vulnerable to health problems as there are no prevention strategies developed and the problems are unexpected: *“We do not have enough money to think about our health (...) We are concerned about it when a problem happens”*.

Although there is social insurance that is obligatory for all legally employed, this mechanism is not efficient, particularly in case of diseases that are more serious. *“The state insurance does not cover the expenses when the problem comes”*. It results partly from limited covered treatment coupled with the necessity to give a “gift” to a doctor even for a single visit: *“When my daughter broke her hand I paid a lot of money to a doctor from my money reserves”*.

3.1.1.4. Theft: a problem in bigger towns

Theft is more stressful for respondents living in bigger towns. In smaller towns or villages the social control is much more developed and *“people know each other”*.

However, people have developed several strategies to prevent this problem so that thefts are not so frequent. For example for many, there is no separation between the place of living and work so that people may monitor their property all day long: *“we live where we work”*.

When the business is separated from the residence, it is possible to hire a guard. However, that is an expensive solution and most people cannot afford such a solution. Once the loss happens, it is possible to ask family for help, but the assistance is limited.

3.1.1.5. Car accidents: risk considered at the business level

Although the respondents doing the ranking exercise placed this risk somewhere at the end, taking all the opinions into account it appears to be highly relevant. Cars for most of respondents are the basic facility to run a business and buy necessary materials and goods. Without a good working car, income is significantly lower. Moreover, the victim

of the car accident may suffer from health problems that make him or her exposed to additional expenses.

Furthermore, car accidents are frequent as the road infrastructure is very poor in Albania.

Respondents have not worked out satisfactory coping mechanisms in case of the loss of an auto. Though all cars are obligatorily insured for third party liabilities, this insurance does not cover damage to the vehicle, or injury of the driver.

3.1.1.6. Flood: risk affecting remote areas

Flood mostly affects semi-urban areas remote to Tirana. In these areas flood is a very important risk as it is frequent (happens several times a year) and may cause severe damage to a business. However, when the event occurs so often, this is not likely insurable.

3.1.1.7 Death: less important due to family-owned businesses

Death was of lower importance for respondents than other risks. It results from the fact that most of the businesses are family owned. Therefore, a family, after the death of one member is still able to generate some income. It is possible to get a consumer loan from a bank to cover the burial costs. Family help may also mitigate the burial costs.

Based on the research results, the following risk types may be distinguished:

1. Type I: unexpected, frequent risk events demanding small sums of money: small property loss due to fire, electricity shortages, theft, small car damage, minor disease. Their impact might be serious when they occur at the same time, but a single event is not dangerous to the functioning of the household;
2. Type II: unexpected, relatively rare risk events demanding large sums of money: major property loss due to fire, electricity shortages, theft, car damage, and serious disease. Their impact is serious even if only a single one strikes;

Some key issues on coping mechanisms, at least in the upper low and middle-income market:

- To some extent, Albanian respondents have developed coping mechanisms to mitigate the costs connected with the less severe risks and are not so much afraid of them. It is rather the frequency of occurrence that makes families vulnerable;
- Albanians seem to be somewhat careless about problems connected with health or death. It may result from the “magic thinking” attitude that “if I do not think about something it will not happen.”

The Risk Importance Matrix was completed with chosen groups in order to capture information supplementary to the Risk Importance Ranking¹⁵. In this chart, the “y axis” represents the number of groups that reported the event as significant, while the “x”

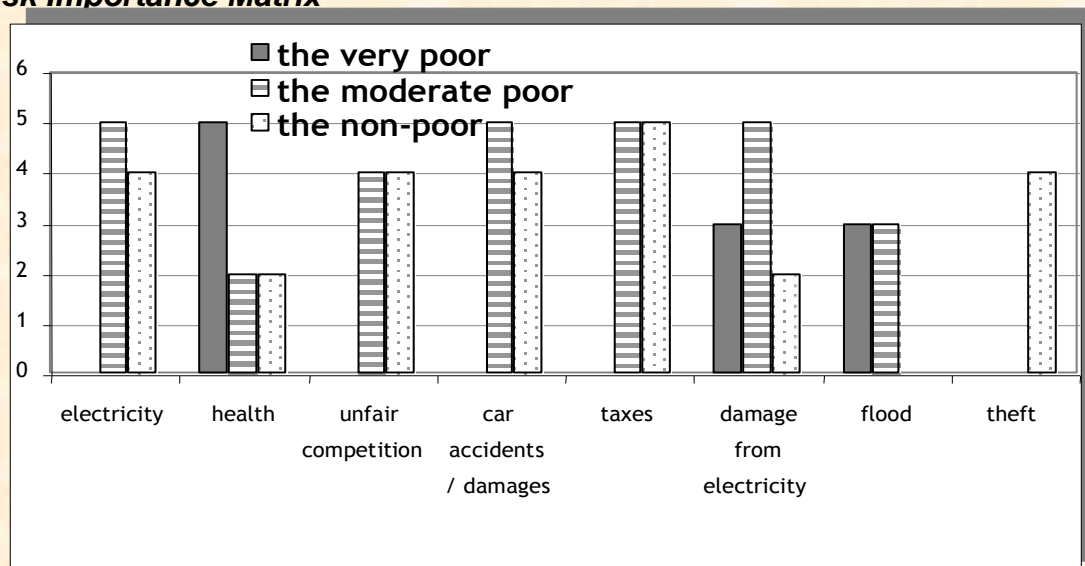
¹⁵ **The very poor** are defined as people having bigger families, where only one member works (sometimes only temporarily), covering only basic food expenses, hardly paying one's way, having no savings.

The poor are defined as people from smaller families, sometimes two people work there (in semi-urban areas these are also people conducting businesses), being able to pay for food plus generate little savings. They are majority of the society.

The non-poor: people conducting businesses, smaller families where most of adult workers work, “*living normally*”, having enough to cover all necessary expenses and generate some savings, but cannot afford any luxuries, they have more assets than the other groups.

axis denotes the different risks. This table is helpful in understanding that all of these risks are significant to the low-income market, while few are considered significant to the non-poor market.

Risk Importance Matrix



As for **the very poor**, they are particularly exposed to health problems, because they *“do not have enough money to cope with them.”*

According to respondents, for the very poor even a less serious disease may result in high financial stress, especially taking into account that small diseases happen relatively often and the very poor have not developed effective coping mechanisms against them. Moreover, there are more children in very poor families that increase the possibility of illness.

The very poor are also vulnerable to flood, because it is mostly the poor that live in flood prone areas. Another frequent and severe risk relates to damages or losses due to electricity problems. They have some assets (i.e. fridges, TV sets and other appliances), but a very limited number of coping mechanisms at their disposal.

The moderate poor are exposed both to risks directly affecting business efficiency and household functioning. The most important, which are insurable, are car accidents (or damages of cars due to bad road conditions), and property loss due to electricity problems. The moderate poor are more exposed to the latter than the very poor because they tend to possess more assets, yet their risk coping mechanisms are still very limited. Moreover, the moderate poor face such problems as taxes and electricity supply breaks, which hamper their business development. Health problems are less relevant for them as they can accumulate some financial reserves or withdraw some money from their business.

Similarly to the moderate poor **the non-poor** are vulnerable to car accidents. Car insurance is still not efficient in their case, because of the lack of comprehensive (or “Kosco”) auto insurance. Theft is also of high importance for them as contrary to other groups, they have assets that may be tempting for a thief. At the same time, their property is usually not insured and they must rely on money reserves and family help.

Similarly, to the moderate poor, the non-poor are also exposed to structural risks (like taxes) that may influence their business profitability.

In case of fire causing smaller losses the poorer the group the more important the risk is. The non-poor can cover these losses, while the poorer groups do not have enough resources.

To sum up, each of the groups gives some potential for insurance products as coping mechanisms are limited in all of them. Generally, poorer groups may be much more affected by risks requiring even small amounts of money. For the moderate poor and the non-poor all risks that may affect their business functioning are of high priority. Regarding the main risk for the very poor, it is health problems, for the poor damage due to electricity problems while for the non-poor theft.

3.2. *Who Demands risk Management Services?*

The demand for risk-management services among the low-income markets has been significantly retarded because of a lack of understanding of the option of formal risk management tools, distrust of local insurance companies, and inappropriate products available for them. This lack of knowledge, or bad attitudes towards insurance, coupled with little interest by the insurers in attracting this market have combined to yield virtually no microinsurance uptake, and limited demand – if they do not know a product or why it is beneficial, people do not demand it. Demand in Albania is limited at this time, but once people understand what it is, and why it is important to them, this is likely to change.

Microfinance Institutions report a demand from their clients for risk management products as these clients' incomes begin to grow and they have more assets to protect. Additionally, during the qualitative research phase of this work, people were interested in insurance once they understood it.

There are several issues that hinder demand, and will make introduction of various insurance products to this market somewhat challenging. Some of these include:

- Social protection schemes cover to a limited extent pensions, and survivor benefits for those families losing a breadwinner. Details of these schemes are provided in Appendix 7.
- Private pension or long term savings plans may suffer from the memories of the Pyramid Scheme crisis in 1997.
- Private pensions may have difficulty attracting low-end clients, and especially the self-employed, because the employed are already paying 11.9% of their wages to the SII and HII. The self-employed must pay 41.9%. Additionally, everyone (paid over 10,000 ALL per month) must pay income taxes. This may make it difficult for the self-employed to generate extra funds for another pension.
- The government makes a contribution to funeral expenses.
- Basic health care is already covered, and what people would need is money to cover the “gifts” which are difficult to insure (unless the insurer simply pays a set amount per day of hospitalisation, for example).
- The insurance companies currently operating in Albania, illicit scepticism from the market. Three senior insurance managers mentioned this and suggested that if an international insurer were to come to Albania they would take much of the market. Meeting with workers and others in Albania, this distrust of insurers was clear.

3.3. *How is the Market Segmented?*

The Albanian insurance market appears to be segmented by those who must purchase insurance and those not mandated to buy. There appears to have been little effort to actually segment the market based on a marketing strategy since insurers could rely on the income from mandatory covers. This impacts product design in that insurers offer a limited range of “one-size-fits-all” products, and do not yet recognise the need (or the value?) of designing and marketing specific products to specific markets.

The Government systems segment based on farmers and non-farmers. This is exemplified by the deep discount offered farmers to participate in the schemes. Everyone else is legally bound to pay the fixed percentage whether employed in a firm, or self-employed. The self-employed simply pay the employee and employer contributions.

3.4. *Effective versus Potential Demand*

3.4.1. *Willingness to pay / Affordability*

Willingness to pay and affordability of microinsurance in Albania have several components.

- “Affordability”** – a function of:
- Trust
 - The needs – product match
 - The mechanism of premium collection
 - The total cost
 - Product understanding
 - Household income

When these factors are addressed in the design of a product, it is much more likely to attract real demand. In Albania, it will be especially difficult to overcome the issue of trust.

3.4.2. *What is the Estimated Demand for Microinsurance Services?*

The demand for different products will be different based on the affordability factors noted above.

Based on estimates of the volume of the likely market for microinsurance, and conservative uptake ratios for life, life with long-term savings, supplemental health care, and fire insurance the following represent the likely effective demand for these products if offered as voluntary:

Product	Estimated Total Potential Market Volume	Conservative Uptake Factor	Conservative Estimated Effective Demand	Potential Annual Premiums (US\$)
Life (general)	1.6 million ¹⁶	10%	160,000	2.0 million ¹⁷

¹⁶ Based on the World Bank poverty report that noted fifty percent of the population lives near the poverty line. This translates into 1.56 million adults and children.

Product	Estimated Total Potential Market Volume	Conservative Uptake Factor	Conservative Estimated Effective Demand	Potential Annual Premiums (US\$)
Life (with long-term savings)	0.8 million ¹⁸	5%	40,000	2.4 million ¹⁹
Supplemental Health Care	1.6 million	10%	160,000	3.8 million ²⁰
Fire	0.4 million ²¹	3% ²²	12,000	0.24 million ²³

For an insurance market that relies on low margins and high volumes, this is a relatively small market, offering a mere 10% of the potential of Uganda. The life and fire policies where the claims ratios might be a bit lower than health and thus provide more incentive to insurers are extremely low. This is mostly because the government provides a death benefit.

Additional research on effective demand would be necessary before any significant investment in the market.

In summary, there is potentially a significant market among the low-income. These people can and do pay for some risk management services, although a more effective basket of insurance would likely be helpful and demanded. The demand itself will come slowly since low-income people will want to gain confidence that these intangible products actually do provide coverage for financial risks. Thus, the demonstration effect will be important. To realise the “Potential Annual Premiums” will likely take several years, especially if the government continues or even improves its social security programs.

There are several insurable risk areas identified in Albania that could be covered by insurance products. The market size is limited so it is best if these products for the low-income market could represent a part of the business for a current commercial provider. This is a more likely approach to generating the insurance pool volumes to make this business profitable. However, the current insurers have shown limited interest or capacity to enter this market.

4. Supply of Microinsurance in Albania

In Albania, there are no voluntary private sector related microinsurance products available that directly aim to address low-income risk management. There are several types of insurance that a lower income consumer might purchase based on requirements from the GoA, Municipalities, foreign country visa regulations, or banks. Specialised voluntary risk management tools for this market simply are not available. Insurers suggest that the current array of products is accessible to the low-income market if they choose to purchase insurance.

¹⁷ Assumes US\$1 per person per month as premium.

¹⁸ Very few children would have long term savings insurance policies, so this represents just the adults, and many of these people are farmers who will have little investment money, and people are still nervous about the pyramid schemes.

¹⁹ Assumes US\$5 per month saved per person. The insurance cost is included in Life (General).

²⁰ Assumes US\$2 per month per person

²¹ The average household size is 4.3 (per World Bank) so the total people in the group 1.56million over 4.3 leaves 360K, plus 40K for businesses not attached to the homes.

²² Assumes that the government does not make fire insurance mandatory for all. Uptake is low because in Shkodra where they have by far the most fires, current insurance companies have not been able to sell very much.

²³ Insurers are charging 2-3% on the value of cover. Assumes household and / or business value at US\$1000, and 2% charge.

Low-income people, like anyone in Albania would be required to purchase commercial insurance if they purchase a vehicle (third party insurance), own a business in a particular industry (liability cover), want a visa to enter a number of foreign countries (travellers' health insurance), drive their vehicle into a neighbouring country ("green card"), or get a loan from any of several financial institutions (credit life policies).

The third party and liability insurance requirements have been emplaced to help protect low-income people by providing cover for them if someone else does them harm. For example, if a vehicle injures them, the third party insurance should cover their damages. If a petrol station were to catch fire and explode (a common example) the liability cover would compensate any damage done in the area as a result of the fire. These potentially do help protect low-income persons manage risks from others (assuming proper claims settlements), but indirectly.

The other mandatory covers primarily protect others. Travellers' health cover does mitigate health care financing risks when people are out of the country, but is primarily to limit the risk of countries that allow the visits. Credit life (alone) protects the financial institution. Green cards protect third parties in other countries. There is really no specialised commercial risk management product available to the low-end market.

Social protection products are available to this market. The State provides health care cover to dependents (women, children, and the aged), and pension schemes to those that wish to contribute. All employed people (in companies or self employed including farmers) are required to make payments towards health care and social security at the point of payment. Effectively though, anyone, whether they pay into the health fund or not, receives health care services. These services might not be the best quality, but they are available, and those interviewed in the demand research noted that health care insurance was almost at the bottom of their list of needs, suggesting some degree of satisfaction with the care.

4.1. *Who are the current and potential microinsurance suppliers in Albania?*

Outside of basic credit life products required by some MFIs and sold by some insurance companies, the only provider of risk management products is the government through its social protection schemes.

4.1.1. *Government*

Social protection has been a strong focus of the GoA. Two semi-autonomous institutions oversee the social protection schemes: the Social Insurance Institute (SII) which manages cover for pensions, temporary incapacity due to sickness, maternity, old-age, disability, and the loss of a bread winner, as well as employment related accidents or illnesses, and unemployment; and the Health Insurance Institute (HII) which covers some health care.

The SII is a compulsory insurance scheme that costs a total of 38.5% of one's salary. This is split between the employee (9.5%), and the employer (29%). Self-employed people pay the full amount. Salaries are also taxed above a monthly wage of 10,000ALL (US\$93). A special discounted rate is offered to farmers. After 35 years of participation and (soon) attainment of the age of 60 (women) and 65 (men) pensioners will receive 75% of the average of their last three years wages.

The HII health cover is also mandatory and costs a total of 3.4% of the salary. This is split evenly (1.7% for employer and employee). This covers the cost of family doctors and the reimbursement of drug costs.²⁴ The HII notes that with 15% of the salary they could cover access to the whole health care system independently from the State budget. This had been planned for 2004, but strains related to the funding of pensions have kept SII from transferring additional funds.

The self-employed are required to pay the full 41.9% of their salary to the SII for their coverage. SII has examiners that check businesses for their up to date payments. If the payments have not been made the business license can be revoked.

Present government policy is to introduce single-source financing for the entire health sector by 2005. However, to succeed, this major reform step involves building consensus among the many government authorities and care providers affected by the change, and it may involve political risks. To ease implementation of single source financing, the Minister of Health has decided to pilot test in the coming year a model for streamlined financing, management, and organization of primary health and hospital care. Evidence produced and lessons learned in 2004 will inform nationwide implementation of the reform in 2005.²⁵

4.1.2. Parastatal Insurers

There is currently one parastatal insurer INSIG that is in the process of being privatised. They currently provide a credit life product to the large borrowers of PSHM. They will soon be privatised and it is unknown what will happen from that point once a new owner takes over.

4.1.3. Specialised Microinsurers (regulated)

The potential for a specialised regulated microinsurer for this market is unlikely unless a donor provides a significant investment of funds and technical assistance to license and develop one. Such a move would clearly require close financial and market scrutiny to confirm an adequate return on the capital investment. This would likely require expanding the market upwards to include at least the middle class. Some of the current insurers have operations in Kosovo and Macedonia. Any new insurer would likely need to do the same. At least one potential microfinance partner, ProCredit Bank (of which KfW has a substantial investment) operates in those areas and more in the region.

4.1.4. Formal Insurers Moving Down-Market

As noted, the insurance industry in Albania relies strongly on legislated and required insurance product sales. At least 83% of the premiums collected in 2003 were related to requirements by the government, other government's visa processes, MFIs with credit life, and neighbouring countries with the "green card". The few voluntary premiums are from very large firms. The insurance companies are trying to expand their portfolios to increase the volume of property and other covers. With some significant technical assistance, these could be helped in their entry. However, they have barely managed to get into the insurance market with any voluntary products. It is likely that they will focus on lobbying for additional government mandates, and then move towards actually selling to the upper market. The low-end market will not likely be marketed to for some time.

²⁴ The reimbursement is for those drugs within a list of currently 344 drugs. When the pharmacist confirms the patient is in the scheme, they discount the patient and apply for the reimbursement themselves. This keeps the patient from waiting for the reimbursement.

²⁵ PHRplus Albania Highlights. December 2003.

4.1.5. *NGOs (unregulated)*

NGOs are not offering microinsurance products.

4.1.6. *Credit Unions and Cooperatives*

The Savings and Credit Union has considered offering microinsurance in the past with an insurer but has not concluded any arrangements. Their plan was to have clients go to the insurer to get credit life cover.

4.1.7. *Hospitals*

All hospitals are government owned though they do charge fees. There is no prepayment or insurance scheme that covers this.

4.1.8. *Other Suppliers*

There are no other suppliers of microinsurance products.

4.1.9. *Institutional Potential*

For microinsurance to work, we need one or more MFIs and an insurance company ready, able, and enthusiastic about entering a new market with new products. Below are two tables that identify most of the MFIs and all of the insurance companies and briefly comments on their potential as microinsurance providers.

From the table below (Basic information on MFIs as potential microinsurance vendors), three institutions appear to be potential partners: Savings and Credit Union, BESA, and PSHM, and possibly the Savings Bank once they are organised. These three would provide a direct market of over 17,000 potential policyholders. These institutions are interested, have a network around the country, have a growing client base, and educated field staff. Any of these would likely be appropriate partners with potential to develop microinsurance products with an insurer.

ProCredit Bank is also an extremely attractive potential partner given their size, their geographic reach, their ability to take savings (which creates significant new opportunities for a greater market and improved efficiencies), and their network that spans the region from Albania to the Ukraine and Georgia. Getting a system to work right in Albania should be relatively easily transferable throughout the regional network. However, ProCredit management noted that they have little interest in being agents of an insurer, but that their headquarters might be interested in starting a new insurance company to work at arms length, but in synergy with their banking network. This is an option that should be followed up with IMI management.

The Mountain Area Development Agency (MADA) might not be a good partner at the start since there are so many special considerations required when working with a very rural population. Potentially, once the products and systems work for the less rural programs, then it will be time to consider MADA and their market.

Basic information on MFIs as potential microinsurance vendors

MFI / Bank	Number of Clients	Comments
ProCredit Bank	9,000 Borrowers 17,000 Depositors	Not very interested in an agency. IMI HQ might discuss the creation of a new insurance company.
Savings and Credit Union	8,200	Very interested in developing microinsurance products, but need TA
BESA	+/- 5,500	Has tried before with SIGMA and

		SIGAL but the premium was “too high.” They are very interested.
PSHM	3,500	Very interested. Have completed a study of the potential for microinsurance (2/02). Showed demand and institutional capacity.
Savings Bank		Newly acquired. Management is far from thinking about microinsurance now but likely interested in future.
MADA	+/- 2,000	Possibly interested but clients need credit which they are developing. Demand would be for agriculture and livestock cover.

With the insurance companies from the table below (Basic Information on Insurers offering new products to the low-income market), almost all of them could be potential partners. They have systems, professional management and staff, networks throughout much of the country, reinsurance relationships, and an improving public image. However, only one offers life insurance, and that offering has been extremely weak and limited. This limits the potential for life products as well as pensions and other long-term savings products related to life policies. These products could be important in this market but the one life insurer is busy preparing for privatisation and the objectives and plans of an as yet unidentified owner are unknown. This creates risk if KfW were to focus on this institution at least in the short and medium term. This leaves no life insurer to work with.

Sigal has applied for a life license but have nearly given up expecting it from the AISC. Atlantik has shown very significant interest in applying for a life license with a partner(s) to be able to impact that market, and is ready to make an investment in such a company. Sigma is also interested. There is significant potential with one of these, especially Atlantic given their eagerness if a life company is to be developed.

Property covers were noted as most important by the focus groups and Atlantic, Sigal, INSIG, and Sigma insurance companies could potentially provide these. The issue here is one of not understanding the low-income market and the new product development that is needed in order to have a product range and processes that work for this market.

Basic Information on Insurers offering new products to the low-income market

Insurers	Started	Comments
INSIG (Life and general)	1991	Privatising parastatal. Only life company. Will shift life business to new company when law is enacted. New General Director with ideas for expansion.
SIGMA (General)	1999	Interested in a new life company, but “It is too early for life”. Need capacity to manage it.
SIGAL (General)	1999	First in market share. Applied for a life license two years ago and have received no response from the commission. Interested in microinsurance but needs: “ideas, knowledge of marketing to this market, and easy access to the low income market.” Focusing more on property insurance now rather than the mandatory covers.
ATLANTIC	2001	Extremely interested in new life company. Would like to be a

(General)		financial partner and help in the set up process.
INTERSIG (General)	2001	Focus is entirely on mandated policies. Is working to get the mayors of towns to make more products mandatory.

It is clear that any improvement in the range of microinsurance products reaching the low-income people of Albania will require significant technical assistance for MFIs, and insurers in areas such as negotiation, relationship development / management, new product development for microinsurance, and marketing. Because of the structure of this market, the best option may be to provide technical assistance to the non-life insurers, and license a new life company.

4.2. What is the anticipated Market Evolution?

Given no additional inputs, it is likely that over time more mandatory microinsurance products will be sold to MFI clients but that these will effectively only cover the risk of the MFI. These products, property types and credit life, will become part of expanded MFI requirements as MFIs realise that the collateral they hold is not insured, and that such a gap leaves them vulnerable. It is expected that voluntary products will enter this market slowly because of the additional marketing, management, and oversight that is required. Significant technical assistance will help to generate additional voluntary non-life products and methods to sell and manage them, and a new life company is most likely to provide better opportunities for the micro market.

The social protection available to Albanians appears to be significantly better than that of many other countries where the government has basically given up (like in Georgia). This sector is clearly the strongest in terms of microinsurance in Albania. Because people seem reasonably satisfied with their social protections, they will be less likely to part with their limited resources.

5. The Legal and Regulatory Environment

The Albanian Insurance Supervisory Commission (AISC), overseen by the Ministry of Finance (although the Chairman is appointed by the Council of Ministers), was organised in 1999 as the country was opening to private insurance ownership. Indeed, in the same year, SIGMA and SIGAL Insurance Companies were granted general insurance licenses and began operations. The AISC has had several General Directors since then. With a current staff of twenty-four, eighteen full-time and four part-time technical staff, they operate three major departments: Inspection, Professional Support, and Administration and Logistical Support. The AISC will add an ombudsman for policyholder issues, possibly as an addition to the responsibilities of a current manager.

The Chairman noted that there is an annual on-site inspection, and monthly, quarterly, and annual reports from the insurers. The Commission must approve any new product for appropriate policy text, profitability (based on actuary review), and general conditions including exclusions (reviewed by an attorney). The Commission is currently funded through State budget transfers and a fee on insurers of 0.5% of premiums. The new law calls for independence from the State budget, and a fee of 2.5% of premiums. As expected, this is a point of contention by the insurers and at least this rate may not be in the final law.

Insurance premiums are value added taxed at a rate of 20%. The AISC notes that this applies to all insurance premiums except those written internationally (such as the travellers' health policies).

Generally, there is a move towards mirroring the requirements of the EU concerning insurance legislation and supervision. This will likely create a better climate for foreign insurance companies in Albania. Such potential changes and their impact on foreign ownership and investment should be further explored.

5.1. What are the Legal and Regulatory Frameworks?

The current law, number 8081: *On Insurance and Reinsurance Business* governs the activities of life and non-life insurance business as well as the responsibilities and authorities of the AISC. It was enacted in 1996 when there was one parastatal insurance company (The Insurance Institute, now called INSIG). At least eleven amendments have been made to adjust it to a more appropriate form for a modern insurance industry based on private insurance initiatives.

The combined law and amendments are seen by most observers and those in the business to be out of step with modern insurance law. This is limiting opportunities and results in an insurance supervisory authority that is not as effective as it should be. This coupled with the expectation of European Union (EU) membership (suggested as anywhere from five to fifteen years from now) has led to a complete re-writing of the insurance law. To this end, the Insurance Supervisory Commission and the MoF have been working with the World Bank (including long- and short-term consultants supplied by them) to rewrite the Insurance Laws into a coherent regulation. This activity is intended to result in insurance regulations that work for a modernising Albania, and reflect those common in the European Union.

The draft law for insurance companies and intermediaries only²⁶ is expected by the authors, Ministry of Finance (MoF) and the AISC, to pass through all intermediary steps and be approved by Parliament by the end of 2004. This new law follows the recommendations of the World Bank and International Insurance Association.

There is no mention of microinsurance in the draft law, nor is there any prescription for addressing the insurance needs of the low-income market. However, some important points from the *draft* law are noted below. A broader translation of relevant sections is included as Appendix 8: Some Key Issues in the *Draft Albanian Insurance Law*.

- The Guarantee Fund
 - For a non-life company must be between 50 and 350 million ALL (US\$0.5-3.3 million) depending on the class of insurance to be sold.
 - For a life company must be at least 180 million ALL (US\$1.7 million)
 - At least 2/3 must be cash then held at the Bank of Albania invested only in the banking system: treasury bonds and time deposits of less than one year.
- A Foreign Insurance Company
 - Relatively easy to obtain a license to operate a branch.
- Agents
 - Works on behalf of one insurance company
 - An agent's company cannot sell life and non-life products at the same time

²⁶ Although the current law includes the Supervisory Commission as a chapter, it was deemed important to write a separate law governing this body. This law is presently being drafted.

- Activities of agents can be done by other entities [such as a bank] as long as the agents are licensed
- Brokers
 - Minimum capital 10million ALL (US\$95,000)
 - Banks can exercise the activity of a broker company
- Transition issues
 - Insurers licensed before the law continue under their old license
 - The AISC has the right to authorise an insurance company at the same time to carry out both Life and Non-life business [i.e. INSIG], as long as there is no other Life Insurer to be licensed.
- Others
 - Companies will be licensed to conduct either life OR non-life business. There will be no composite insurance companies (once the INSIG issues are concluded).
 - Possession of more than 30 percent of the share capital by a single shareholder is prohibited
 - The AISC will license actuaries and claim adjusters

“The goals of the new law are to further regulate the licensing procedure for the insurance and intermediary undertakings (brokers and agents), to increase the role of AISC through restructuring of its organizational and financial structure and empower the supervisory methodology through the establishment of an operating regulatory system. The outcome of these three objectives would enable the establishment of a stable, efficient and transparent market in protection of the interests of insured.”²⁷

As an additional measure to professionalize the industry, The Association of Albanian Insurers (AAI) is developing an Insurance Code of Conduct to guide some of the activities of its members. They plan to have it approved and in use by the end of 2004.

5.1.1. Framework for unregulated insurers

There is currently no special framework for unregulated “insurers” in Albania.

5.1.2. Framework for MFIs

The insurance act forbids any organisation from conducting any insurance business without a license. Thus, MFIs cannot legally develop and sell their own insurance products without a license. Thus, some of the banks currently work with insurers for the provision of credit life policies to protect the institution. Clients are sent to an insurance company to obtain the insurance and in some cases, the MFI gets a commission. There is legal scope in the draft law for a bank to become a broker, as long as it is licensed.

The legal and regulatory structures in Albania do not represent significant barriers to microinsurance.

6. Developing a Microinsurance Sector in Albania

6.1. Creating an enabling environment at the policy level

At the policy level, the new law should clarify some issues and bring the regulatory environment up to the standards of the EU. In terms of microinsurance, there is nothing

²⁷ “The New Insurance Law in Albania, Compliance with EU Standards.”

in the new law that directly addresses microinsurance issues, but it will create stronger insurance institutions that will benefit all.

Where there is an issue with the new law relates to the licensing of agents. The law states that everyone who sells insurance must be licensed as an agent. To be licensed, an agent must be trained, pass a test, and pay the equivalent of US\$350. To have all field officers, or all front line workers comply with this would be excessively expensive and complicated for such workers. The commissioner noted that Western Union is selling some insurance to its customers and they were offered a discount of 50% on the fee. The Commissioner has asked the author about the fees for agents in other parts of the world, and seemed willing to shift on this given a good argument backed up by external examples.

Agents are authorised to sell only one type of insurance (life or non-life). This will lead to inefficiencies if MFIs are to be intermediaries since their staff would be limited in what they could sell. In MFIs, it is fully conceivable that they would want credit life and accident insurance (non-life) and a life policy with long-term savings, and their staff could not sell both.

In many countries, people are allowed tax advantages for long term insurance investments. Such an allowance may help to promote such savings. This is available for payments to the SII, but not for payments to private funds.

All insurance policies are taxed at a rate of 20% for Value Added Tax (VAT). This amounts to a direct increase to the premium cost which is in the case of most insurance policies, even greater than the loss ratio – the amount that directly benefits the policyholder. This is a disincentive to potential microinsurance purchases, and raises the premium cost above the level that some people could have taken advantage.

The investment requirements in the insurance law make it difficult for an insurer to make a proper return on the almost US\$2 million guarantee fund requirement, while still paying the policyholder a reasonable return. Because the investment environment in Albania is so limited, the law should allow for controlled investments abroad.

There are certainly some insurance products that should be obligatory – third party auto and construction liability, for example. However, the discussion of working to get the government to mandate other insurances – such as life, or fire – for everyone is bad policy. They could provide incentives to insurers to promote these, but they should not be mandated.

The policy of paying physicians poorly and then allowing them to let “gifts” determine who is cared for and to what extent, is only making people lose confidence in the government schemes. The government needs to decide what it will do with the money they have, and then do that well. There are areas where the private sector insurers could intervene, with life cover, and accidental disability for example. The government should work with the insurers to create a broader, stronger safety net.

6.2. Building an enabling environment through donor coordination and stakeholder education

In terms of insurance in general, the donors have limited their involvement. World Bank has worked with pensions and health policy, while USAID has focused on health

through its Partnership for Healthcare Reform plus (PHRplus) program. DFID is not involved in this sector, and USAID is doing nothing directly with insurers. GTZ has no activities with insurers. Donor coordination in Albania is said to be reasonably good.

The stakeholders on all sides need understanding of the issues of microinsurance. The potential policyholders know little of insurance and will need to not only understand it, but also will need to recognise why it is important to them, and they need to trust the insurer. The insurers need to learn that the low-income market is different from their other markets, and will require specialised products, and innovative delivery mechanisms. Any agents will have to learn to sell and service this market in a new way, and they will have to be appropriately incentivised. The education processes in these programs can be among the most intensive aspects of product development and implementation. However, if the investment in education is not made in the beginning, the product will almost surely fail, or simply limp along.

6.3. *Creating Demonstration Models*

In many places, demonstration models can help others see the value in a particular market or process. Just as potential microinsurance clients will wait to see if the first movers actually get what they were promised, insurance companies often want to see something work before they make an investment.

6.3.1. *Supporting New Entrants*

There are currently no new entrants in the market. It may be appropriate for a new life company to enter this market to give it some life. Additionally, it will be important to obtain management of this company from outside Albania. For the demonstration to be effective, the management will have to be innovative and bring ideas from the outside. One issue with the current insurers is that most of them “came of age” in the parastatal insurer INSIG, with all the parastatal issues. A new insurer will be discussed more below.

6.3.2. *Supporting Current Players*

Because of the distinction between life and non-life companies, the prohibition against composite insurers, and the five insurers that already conduct non-life business, it would be appropriate for the new insurer to take a life license, and work with the others to improve their offerings and service to the low-income market. One non-life insurer noted that what he needs is:

- Ideas
- Knowledge of the low-income market
- Methods for marketing to that market, and
- Easy and efficient access to it

These are where the Albanian insurers need assistance, as well as with managing and guiding a new product development process, managing investments, and asset – liability management. Working on such issues with these insurers will help to improve their whole range of products since all the processes used to develop products, procedures, and strategies for the low income market, can be used in improving services to the upper income market.

Some Swiss consultants have been working with the Association of Albanian Insurers (AAI) to develop a curriculum for a broad insurance training program based on current insurance executives teaching from the developed curriculum. This project has been funded by Swiss aid.

6.4. Supporting Innovation

Rather than supporting innovation in this market, it will be necessary to lead the way with demonstrations of a different type of product development, a different type of management, and ideas for innovation. It will likely be necessary on the non-life side to develop some non-life products for this market that can be used by any of the insurers.

Creating an enabling environment is not so much the issue in Albania (though clear if the market were more receptive to insurers that would enable the process). The issue is more related to demonstration models and supporting innovation. There is extremely limited innovation occurring in the insurance market in Albania, and it is unlikely that this will improve without a new, strong competitor that recognises the potential of this market and by demonstration, gets the current insurers to be more proactive within the market. A new competitor from outside Albania could dramatically invigorate this market. However, the market is small and there are already too many non-life insurers so the incentive to enter would be limited.

7. A Possible Role for KfW

In identifying opportunities for KfW intervention, a list of principles was developed to guide the process. These principles are:

- o Formal sector regulated insurers have the most appropriate skills base to manage microinsurance products, and thus they should be worked with as appropriate.
- o KfW's efforts should reduce the overall risk in the risk management system.
- o Ultimately the impact of the sum of the interventions should be very large, and positively affect low-income people regardless of geography.
- o Where the private sector is likely to develop itself in terms of microinsurance, KfW should not intervene.

Based on the above principles, and the information gathered from insurers, bureaucrats, MFIs and Banks, and others, several suggestions are offered for interventions that will improve / initiate the provision of microinsurance products to the low-income market in Albania. The Core Suggestions are those that require KfW involvement while the Additional Suggestions are of a more technical assistance nature.

These suggestions are detailed in Appendices 1 and 2.

The core suggestions:

1. An equity investment to start a new life insurance company in Albania with expatriate management.
2. Funding a branch of an international insurance company to commence business in Albania to help push the current players to open up and offer appropriate products.

Additional suggestions that might be appropriate for an organisation other than KfW:

1. New product development and implementation with the non-life insurers.

Details of both sets of suggestions are provided in Appendices 1 and 2.

8. Conclusions

Albania is a country with an immature private insurance industry and insurance market, and an extensive, though not always fully effective, social protection system. The private sector has mostly focused on the obligatory market for third party auto insurance as well as “Green Cards”, travellers’ health cover, border covers, and credit life. Voluntary products are limited to large companies and few wealthy individuals. The low-income market has not been recognised as viable, nor even wanting insurance products. Most of the insurers have not yet figured out how to successfully sell voluntary products to the middle and upper markets. This suggests that it will be a long time before they get to the low-income market.

These insurers are all offering non-life products. Life products have been virtually absent from any market in Albania, generally just sold to large companies, including parastatals, and even then on a very limited basis.

There are numerous challenges in the market that include:

- lack of knowledge of insurance in the low income market
- distrust of local insurers
- distrust of savings schemes
- limited investment opportunities
- regulatory issues
- tax burdens and lack of tax incentives
- limited innovation
- lack of recognition of the low-income market as viable

This paper has discussed these issues and others thoroughly. As a means to open up the market and create demonstrations of success, it has been recommended that KfW invest in the start-up of a new life insurance company for Albania, and that a technical assistance provider work with the non-life sector of the industry to develop new products and show the insurers a controlled new product development process that they could use with all their products. However, these recommendations are weak given that the likelihood of success at this point in Albania is limited because of the limited size of the potential market, and the limited demand. It would be best if KfW were to test their interventions with other countries that have greater potential and once a successful intervention strategy has been observed, then take it to Albania if that is appropriate.

This market has potential. With assistance, current and future insurers could provide important risk mitigating products profitably to the low-income market.

When and if KfW decides to try for an investment in Albania, further research should be conducted in several areas including:

- Reviewing the effectiveness of the social security systems to determine the level of provision that is actually provided and to identify any gaps in coverage in terms of specific care, geographic areas, or economic levels.
- Conducting a more extensive demand study to get better details of how people respond to risk, and where there might be gaps from their perspectives.
- Identify potential international insurers that might be interested in developing a branch in Albania with management from outside Albania.

Clarifying these issues will help to better understand the potential for microinsurance in Albania, and will help KfW to develop an intervention / investment strategy for this limited market.

Bibliography

CGAP Working Group on Microinsurance, Preliminary Donor Guidelines for Supporting Microinsurance, 8 October 2003

Cohen, Monique, and Michael J. McCord “MicroInsurance Centre Briefing Note # 6: Financial Risk Management Tools for the Poor.” January 2003.

Szubert, Dorota. Understanding Demand for Microinsurance in Albania: Results of an Exploratory Quantitative Study. The Microfinance Centre for Central and Eastern Europe and the Newly Independent States. March 2004.

(Plus all documents listed in Appendix 4: Relevant Documents Collected.)

Appendix 1: Core Suggestions

A1.1 An equity investment to start a new life insurance company in Albania

Problem	There is currently only one life insurer and they have had an extremely limited market focus. This has led to very low utilisation of life products. Additionally, the insurers in this market need to be pushed through example into offering better products in a better way to the markets including the low-income market.
Impact	Having only one life insurer, a parastatal company, in the market has limited growth of this product range and has left people without cover for life or the opportunity for long-term savings. Partly because so many of the current insurance leaders came from the parastatal insurer, they have not seen the benefits of aggressive, focused product development and delivery. This has let them sit back and mostly work with mandatory products. This leaves the market with little segmentation, and little innovation.
Potential KfW Intervention	KfW could make an equity investment to start a new life insurance company in Albania. Additionally, they could provide funding or technical assistance to support that investment with expatriate management.
Likely Intermediaries	Possibly IMI, less likely Opportunity International, could be partners in the investment. The law limits ownership by any one party to 30%, and thus at least three other partners would be required.
Type of Financial Investment	Equity, long-term loan, and grant
Form of TA	Provision of a Chief Executive Officer and a marketing specialist with microinsurance experience for at least the first three years, plus specific support for them and the start-up.
Estimated Cost	Minimum capital investment is approximately US\$1.7million plus at least 5% (US\$85,000) as setup costs, with a maximum ownership of 30%. Thus, the estimated cost to KfW would be: Equity = US\$510,000 (US\$250,000 in voting shares, and US\$260,000 in non-voting shares) Start-up requirement (mostly fixed capital investment) - Long-term loan = US\$240,000 Supportive Technical Assistance - Grant = US\$750,000 TOTAL COST = US\$1.5million

This option has significant risk in terms of the large investment required and the limited potential for life insurance. Though there is no strong life insurer in the country at this point, it is theoretically beneficial to start one and develop the market for life products. However, the demand for life products is clearly limited, and success will take much effort to move the market from its fear of long-term savings due to the pyramid schemes. Thus, such a business is likely to grow slowly. This may be mitigated some through relationships with ProCredit bank, BESA, and the credit unions.

A1.2 Invest in opening a branch of a respected international insurer

Problem	The insurers active in Albania have mostly come from the parastatal insurance company, and although they want profits, and indeed some have generated significant profits, they show limited innovation in the insurance market. Additionally, because of the parastatal beginnings of the insurance business in Albania, and the questionable service that comes from these entities, Albanians do not trust the local insurers. This distrust is exacerbated by their experience with pyramid schemes in the late 1990's when even senior politicians were lying to the public about the strength of these schemes right up to the moment so many lost all their money.
Impact	These issues keep the insurers from innovating, and keeps the market distant. They reduce the potential for microinsurance, and indeed insurance in general. The insurers have responded by promoting their products for obligatory offer by the municipalities. Ultimately this will lead to continued slow growth of the insurance business.
Potential KfW Intervention	KfW could identify a respected international insurer and convince them to open a branch in Albania through an investment in that branch. This would have the impact of providing an insurer that people could trust, and that would aggressively work the market. These would get people more interested in insurance, and show the current insurers how an aggressive insurance market should operate. In the short to medium term, this should result in insurers who are more aggressive in the market, and competition for all layers of that market.
Likely Intermediaries	Possibly Allianz, AIG, or another European based insurer. They could possibly work with IMI, or potentially one of the current insurers in Albania as long as the new branch is managed by expatriates with significant international experience. The law limits ownership by any one party to 30%.
Type of Financial Investment	Long-term concessionary loan, and a grant to cover some research and development activities.
Form of TA	Provision of a Branch Manager and a marketing specialist for at least the first three years, plus specific support for them and the start-up. The provision of these people should be co-funded with the insurer.
Estimated Cost	Approximately US\$300,000

Because the risk is limited and the investment substantially less, this branch option should be studied carefully. Potential problems might arise in the identification of an insurer that is not only willing to enter this market with a branch, but also willing to enter the microinsurance market for at least some of their activities. This can be mitigated through focused agreements and targeted research and development funds.

Appendix 2: Additional Suggestions for consideration by non-KfW entities**A2.1 Research and development on three new microinsurance products**

Problem	There has been very little innovation in the insurance market in Albania. Partly this is due to limited understanding of the low-income market and the opportunities that it holds. The non-life business will not have the benefit of direct KfW intervention as with the Life Market, so assistance would be helpful in getting the non-life insurers to understand the process of new product development and marketing for this market. This may help them to enter the market they have previously not touched (except for those with autos).
Impact	The impact has been that there have been essentially no non-life products offered to the low-income market.
Potential KfW Interventions	<p>A new product development process could be implemented for three microinsurance products. This process includes extensive demand and supply research, which would lead to the design of products and processes in response to that demand and the needs and capacities of the insurance companies. Success will require several important inputs, including: design, development, testing, and implementing a training program for microinsurance for insurers, and one for intermediaries. A product-marketing program that focuses specific and effective product marketing to the proper markets will also be necessary. Qualitative and quantitative market research would be used, as well as development of procedures manuals and developing processes between insurer, intermediary, and policyholder.</p> <p>These products would be developed for “the industry” under the responsibility of the project intermediary (the AAI). Once the products are developed, they would be offered, with training to the insurers. When these products were sold, the intermediary would charge a commission on them for the first two years and the AAI could provide classes to train those that are selling and managing these products, both inside and outside the insurance industry. This would provide additional funds on a business basis to the AAI.</p>
Likely Intermediaries	Association of Albanian Insurers (AAI).
Type of Financial Investment	Grant, however, limited direct operational funding would come to the AAI based on training fees and commissions.
Form of TA	A microinsurance product development specialist, and a curriculum development specialist. These people would work closely with the intermediary so that the process and skills can be institutionalised with new capacity in the country. The third new product should be developed with mere oversight by the product development specialist.
Estimated cost	US\$500,000

The current insurers need to understand the NPD process and begin to make investments in research and development. This is unlikely to happen spontaneously,

and an investment in this process by a technical assistance provider would have a strong positive impact on the market. Risks in this effort are related to working with the AAI as a partner considering their limited but growing capacity at this time. Once the products are developed, there may be issues of uptake by the insurers that could leave the products in a dormant state.

Appendix 3: Institutions and People Visited

Life Insurers:

- INSIG
 - o Mr. Varuzhan Piranjani, General Manager, vpiranjani@insig.com.al, 355-4-23-41-91
 - o Ms. Ilda Kekezi, Life Department Director, ikekezi@insig.com.al, 355-4-23-41-91
 - o Mr. Gezim Mushani, Branch Manager Shkodra, degashkoder@insig.com.al, 355-22-420-61, Mobile 069-22-17-617
 - o Head of Life and Property, Shkodra Branch

General Insurers:

- Atlantik (www.atlantik.com.al)
 - o Mr. Dritan Celaj, General Director, atlantik@abissnet.com.al, 355-4-230-506
- INSIG
 - o Mr. Varuzhan Piranjani, General Manager, vpiranjani@insig.com.al, 355-4-23-41-91
 - o Mr. Bledar Habili, Non-Life Department Director, bledi@insig.com.al, 355-4-23-41-91, Mobile 355-68-20-49-005
 - o Head of General Insurance, Shkodra Branch
- INTERSIG
 - o Mr. Vangjel Birbo, General Director, 04-344-748/9
 - o Mr. Genc Koxhau, Vice General Manager Economic and International Relations Department, intersig@albaniaonline.com, 04-344-748/9, Mobile 069-20-23-147
 - o Branch Manager, Shkodra, 069-20-955-86
- Sigma Insurance Company (www.sigma-sha.com)
 - o Mr. Qemal Disha, General Director, disha@icc-al.org, 355-4-258-254 (first General Director INSIG, former Central Bank Governor)
 - o Mr. Naim Isufi, Technical Director (Underwriting), naimsig@icc-al.org, 355-4-376-136, Mobile 0682045790
- SIGAL Albanian Insurance (www.sigal.com) (www.albanianinsurance.com)
 - o Mr. Avni Ponari, General Director, avniponari@sigal.com.al, 355-4-253407/8
 - o Mr. Edvin Hoxhaj, Director, edvinhoxhaj@sigal.com.al,
 - o Mr. Fatmir Lishi, Branch Manager Shkodra, 355-22-444-29, Mobile 069-20-817-39
 - o Ms. Samedin Ismaili, Agency Manager / Agent Tirana

Insurance Brokers:

- There are no insurance brokers in Albania

Insurance Related Associations:

- Association of Albanian Insurers
 - o Ms. Valbona Kaduku, General Secretary, shssh@albmail.com, 355-4-221403
 - o Mr. Dritan Cela, Training Coordinator, 355-4-221403

Microfinance Institutions / Banks:

- BESA Foundation
 - o Mr. Bajram Muca, Executive Director, mfi@besa.org.al, baromuca@hotmail.com, 355-4-253841/2

- o Mr. Altin Muca, Marketing Director, mfi@besa.org.al, 355-4-253841/2
- ProCredit Bank www.procreditbank.com.al
 - o Mr. Jasper Menken, General Director, j.menken@procreditbank.com.al, 355-4-271272
 - o Ms. Senida Mesi, Branch Manager Shkodra, s.mesi@procreditbank.com.al, 355-224-2024/2115
- PSHM (www.pshm-oi.org)
 - o Jim Reiff, CEO, jreiff@pshm.icc-al.org, 355-4-246-267/8, Mobile 355-69-20-331-163
 - o Mr. Arben Hafizi, Credit Officer (Shkodra), pshmsh@albmail.com, 355-022-40539, Mobile 355-69-20-84261
- Savings and Credit Union
 - o Mr. Benet Beci, Deputy Director and Financial Manager, ffrural@albaniaonline.net, ascunion@icc-al.org, 355-4-251-911
- Savings Bank of Albania (now owned by Reifaisen Bank)
 - o Ms. Rudina Ziu, Head of human Resources and Legal Division, rziu@bkursimeve.com.al, 355-4-226-308 ext. 2412.

Microfinance Groups:

- There is no microfinance association in Albania

Private Sector Groups:

- American Chamber of Commerce (www.amcham.com.al)
 - o Ms. Floreta Luli-Faber, Executive Director, floreta@amcham.com.al, 355-4-259-779, Mobile 068-20-48-168
- Shkodra Chamber of Commerce and Industry
 - o Mr. Anton Leka, Chamber Chairman, ccish@abissnet.com.al, 355-22-43656, Mobile 069-22-199-48

Donors and International Organisations:

- DFID
 - o Mr. Arben Qesku, DFID Project Officer, arben.qesku@fco.gov.uk, 355-4-234-973/4/5
- GTZ
 - o Mr. Ismail Beka, Program Manager, beka_gtz@yahoo.de, 355-4-251792
 - o Ms. Edlira Kruja, Local Coordinator Shkodra, gtz_shkodra@yahoo.com, 355-224-89-14, Mobile 069-20-88-795
- USAID
 - o Mr. Son Hoang Nguyen, Senior Agricultural Development Advisor, snguyen@usaid.gov, 355-4-266-395/6/7/8, Mobile 069-20-93-675
 - o Ms. Alma Kospiri, SME and Trade Development Specialist, akospiri@usaid.gov, 355-4-266-395/6/7/8, Mobile 069-20-90-172
- World Bank (www.worldbank.org)
 - o Ms. Greta Minxhozi, Senior Operations Officer Private and Financial Sector Development, gminxhozi@worldbank.org, 355-4-240587/8/9
 - o Ms. Lorena Kostallari, Operations Officer (covers pensions and health), lkostallari@worldbank.org, 355-4-240587/8/9
- World Health Organisation
 - o Ms. Nertila Tavanxhi, Medical Doctor, National Professional Officer, ntavanxhi@who-albania.org, 355-4-223-841/266 162, Mobile 069 20 74 194

Government Representatives:

- Albanian Insurance Supervisory Commission
 - o Mr. Gezim Agasi, Chairman, kms@albaniaonline.net, 355-4-250686, Mobile 355-68-2060840
 - o Ms. Teuta Cani, Deputy Chairwoman, icani@san.com.al, 355-4-250-686
- Ministry of Finance
 - o Ms. Ermira Verli, Chief of Financial Department, (Home) 355-4-245323
- Social Insurance Institute
 - o Mr. Ilir Begja, Executive Director, 355-4-227-850
- Ministry of Health
 - o Mr. Aurora Cara, Human Resources Manager, 355-4-375137
 - o Mr. Thanasi Poci, Economic Director, 355-4-375137
- Health Insurance Institute
 - o Mr. Gjergji Leka, General Director, gjleka@isksh.com.al, 355-4-230984, Mobile 355-68-20-31-656

Microinsurers:

- There are no microinsurers in Albania (beyond credit life insurance for the MFIs)

Microinsurance Representatives:

- There are no microinsurance representatives in Albania

Others:

- Dr. Enver Roshi, University of Tirana School of Public Health Department Head, e_roshi@yahoo.com, Mobile 355-68-27-59719.
- Mr. Artur Galanxhi, The Republic of Albania Mountain Area Development Agency (MADA), agalanxhi@yahoo.com, mada@albnet.net, 355-4-26-75-44, Mobile 068-20-53-310.

Appendix 4: Relevant Documents Collected:

Albanian Savings and Credit Union. Annual Report 2003.

Barents Group of KPMG Consulting, Inc. Health Sector Finance Study: Final Report. The Ministry Of Health Of Albania, Tirana, Albania. (Electronic)

BESA. Annual Report 2002.

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Republic of Albania, Ministry of Finance, *Draft Insurance Law*, as at 23.4.04 (in Albanian only, some translation performed and attached)

Reynolds, D. Albania: the Development of Public Health Insurance 1995-2000. Institute for Health Sector Development. April 2003.

Shkodra District Council. *Shkodra District*. 2003.

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Szubert, D. Understanding Demand for Microinsurance in Albania: Results of an Exploratory Qualitative Study. The Microfinance Centre for C&EE and the NIS, March 2004.

US Chamber of Commerce in Albania. 2003-2004. *Year Book*.

World Bank. Albania Poverty Assessment, 5.Nov.03

Xhumari-Vaso, M. A comparative analysis on old-age pension schemes in Albania, Kosovo, and Macedonia. Presented at the 4th International Research Conference on Social Security, Antwerp, 5 - 7 May 2003.

Documents relating to current insurance regulation in Albania (received as photocopies) (Note draft of new Law above):

1. Law #8081 (7.3.96) On Insurance and Reinsurance Business (the original and full insurance act)
2. Law # 8458 (11.2.99) On a Change to the Law 8081 dated 7.3.96
3. Law # 8606 (27.4.00) On Some Changes on Amendments of the Law 8081 dated 7.3.96

4. Decision #229 (28.4.99) On Ways of functioning and Organisation of the Insurance Supervisory Commission
5. Instruction #5 (28.4.98) On Maximum Limits on the Investment to Cover Technical Reserves of Insurance and/or the Reinsurance Companies
6. Instruction # 6 (26.4.99) On Life Insurance Contingencies and Some Ways to Calculate them
7. Instruction #7 (22.6.00) For List of Documents of Compulsory Annual Accounting that Insurance and / or Reinsurance Companies should possess
8. Instruction #8 (29.7.98) Calculation of Required Level of Solvency Margin and the Elements Comprising It
9. Instruction #8 (5.7.00) Some Supplements to the Instruction of the Minister of Finance #5 Dated 28.4.98 “On Maximum Limits on the Investment to Cover Technical Reserves of Insurance and/or the Reinsurance Companies.”
10. Decision #626 (8.10.98) On Minimal Limits of Guarantee Funds for Insurance and Reinsurance Companies
11. Regulation #1 (20.7.98) On Issuance of Official Authorisation (for opening direct insurance and/or reinsurance activity)
12. Instruction #6 (2.6.00) An Amendment to the instruction of the Minister of Finance #8 (29.7.98) “Calculation of Required Level of Solvency Margin and the Elements Comprising It”

Appendix 5: Comparative Insurance Penetration

Premiums as a % of GDP (Insurance Penetration)²⁸

	1999	2000	2001	2002
WORLD	7.5	7.8	7.8	8.14
Croatia				3.16
Kenya				3.09
Russia				2.77
Serbia and Montenegro				2.24
Greece				2.05
Ukraine				2.01
Latvia				1.91
Bulgaria				1.90
Lithuania				1.46
Turkey				1.31
Romania				1.09
Albania	0.38	0.37	0.50	0.58

²⁸ 2002 data from Swiss-Re sigma No. 8/2003. Albania, Uganda, and Georgia data from respective insurance regulators.

Appendix 6: Comparative Insurance Density

Premiums per capita (Insurance Density) (US\$) ²⁹				
	1999	2000	2001	2002
WORLD	387	404	393	422.9
Croatia				160.7
Kenya				11.6
Russia				66.6
Serbia and Montenegro				33.0
Greece				253.1
Ukraine				17.1
Latvia				68.5
Bulgaria				43.1
Lithuania				57.9
Turkey				35.0
Romania				22.3
Albania	4.20	4.10	6.70	8.84
Georgia	1.39	1.82	2.49	2.33
Uganda		0.97	1.09	1.19

²⁹ 2002 data from Swiss-Re sigma No. 8/2003. Albania, Uganda, and Georgia data from respective insurance regulators.

Appendix 7: Details of Social Security Programs in Albania

Old Age, Disability, Death³⁰

First law: 1947.

Current law: 1993, amended 1995, 1998.

Type of program: Social insurance system.

Exchange rate: U.S.\$1.00 equals 144.4 lek.

Coverage

Employed persons, self-employed, and university students; voluntary coverage for others who do not qualify for compulsory insurance.

Supplementary systems are available for civil servants, private employers and employees and military personnel.

Special state pensions are available for those who have contributed to the political and cultural development of Albania.

Source of Funds

Insured person: 11.7% of total earnings (10% for pension, sickness and maternity, 1.7% for medical care).

Employer: 34.2% of payroll (26% for pension, sickness and maternity, 1.7% for health cash benefits, 0.5% for work injury, and 6% for unemployment insurance.)

Government: Covers cost for those in compulsory military service.

Above contributions also finance cash benefits for sickness and maternity.

Qualifying Conditions

Old-age pension: Age 60 (men) or 55 (women), 35 years of contributions, and retirement from economic activity.

Mothers with 6 or more children over the age of 8, eligible at age 50 with 30 years of contributions.

Partial old-age pension: Age 60 (men) or 55 (women), with 20-35 years of contributions.

Disability pension: Incapacity for any economic activity, blind, or suffering from severe mutilation.

Minimum insurance period is at least 1/2 the difference in years between claimant's age and 20.

Disability must be certified by Medical Experts Committee (MEC).

At pensionable age, claimant may choose old-age pension if amount is higher.

Partial disability pension: Incapacity to perform work at last employment, but can work under special working conditions, provided minimum insurance period is met.

Disability and special work conditions as determined by MEC.

Survivor pension: Deceased was insured or had terminated insurance not earlier than 1 year before death. Eligibility for old-age or disability pension. Dependents include surviving spouse caring for dependent child under 8; disabled or aged spouse (age 50 for widow or 60 for widower); dependent orphans under age 18 (25, if students), or became disabled prior to reaching these ages; parents and grandparents aged 65 or older who shared the same household with deceased for 12 months prior to the death and have no one else to care for them; dependent grandchildren.

Surviving spouse loses pension on re-marriage.

Old-Age Benefits

Old-age benefit: Consists of a basic pension and an increment:

1. Basic flat-rate pension (equal to minimum living standard) awarded to all insured persons, and
2. Earnings-related increment for employed persons equal to 1% for each year of coverage multiplied by the average assessed wage of which contributions were paid.

Maximum: Twice the basic pension amount, or 75% of average net wages during 3 of the last 10 years of employment.

³⁰ <http://www.ssa.gov/policy/docs/progdesc/ssptw/1999/albania.htm>

Increment for deferred retirement: 4% of full pension for each year of deferred retirement, with continued contributions.

Maximum: 80% of average net wage during 3 of last 10 years of employment.

Partial pension: Calculated as percentage of full pension, depending on number of years worked.

Adjustment: Basic pension amount indexed annually according to price changes of selected commodities.

Permanent Disability Benefits

Disability pension: Consists of basic pension and increment as for old-age pension.

Maximum: Twice the basic pension or 80% of last average net wage, whichever is less.

Partial disability pension: 50% of full disability pension.

Constant attendance supplement: 15% of assessed wage for contribution purposes.

Supplements for dependent children: 5% of basic old-age pension for each dependent child under age 15. Maximum: 20% of basic old-age pension.

Adjustment: In accordance with old-age pension.

Survivor Benefits

Survivor pension: 50% of pension of deceased for the surviving spouse; 25% for each orphan and other dependents up to a maximum of 100% (50% where surviving spouse is economically active or receiving pension in own right) of pension of deceased. 50% for sole orphan, provided that there is no other eligible dependent.

Full orphans: Eligible for pensions from both parents.

Death benefit: Equal to 1 month's basic old-age pension.

Administrative Organization

Ministry of Labour and Social Affairs, general supervision.

Social Insurance Institute, administration of program.

Sickness and Maternity

First law: 1947.

Current law: 1993, amended 1994, 1995, 1998.

Type of program: Dual social insurance system (cash benefits) and universal system (medical care).

Coverage

Sickness benefits: Employees.

Maternity benefits: Employees, employers, and self-employed.

Medical care: All residents.

Source of Funds

Insured person: Employees, see pension contributions, above, for cash benefits; medical care, 1.7% of salary (urban areas).

Employer: See pension contributions, above, for cash benefits; none for medical care.

Government: Medical care, 1.7% of payroll. Whole cost for persons not currently in labour force.

Qualifying Conditions

Sickness benefits: 1 week of employment.

Maternity benefits: 12 months of contributions.

Medical care: No minimum qualifying period.

Sickness and Maternity Benefits

Sickness benefit: 70% of average daily wage in last calendar year if less than 10 years of contribution, 80% for more than 10 years.

During hospitalization, benefits equal 50% of average daily wage, provided there are no

dependents. Payable from 15th day of medical certification (first 14 days responsibility of employer) for up to 6 months. May be extended for a further 3 months if MEC certifies likelihood of recovery in that period. Income compensation also available for changes of employment due to health reasons.

Maternity benefit: Employees: 365 days of paid maternity leave (minimum of 35 days prior to childbirth and 42 days after): 80% of average daily wage in last calendar year for leave period prior to childbirth and for 150 days after. 50% of average daily wage for remainder of period. For more than 1 child, paid leave period is extended to 390 days, including a minimum of 60 days prior to and 42 days after confinement. Benefits also available in cases of adoption. Compensation is payable for changes of employment due to pregnancy. For employers and the self-employed: Benefit equal to the basic old-age pension. Birth grant: Lump sum payment of 1500 lek for either insured parent with a minimum of 1 year's contributions.

Workers' Medical Benefits

Medical benefits: Free general practitioners' services.
Reimbursement from 35-100% for various medicines from the essential list.

Dependent's Medical Benefits

Medical benefits for dependents: Same as for family head.

Administrative Organization

Ministry of Labour and Social Affairs and Ministry of Health Protection, general supervision.
Social Insurance Institute, administration of sickness and maternity benefits.
Health Insurance Institute, administration of medical benefits.

Work Injury

First law: 1947.
Current law: 1993, 1995, 1998.
Type of program: Social insurance.

Coverage

Employees, apprentices, and students in practical training.

Source of Funds

Insured person: None.
Employer: See pension contributions above (pays 0.5% of payroll).
Government: None.

Qualifying Conditions

Work-injury benefits: No minimum qualifying period.

Temporary Disability Benefits

Temporary disability benefits: 100% of average daily wage over last 3 years, payable for up to 12 months.

Permanent Disability Benefits

Permanent disability benefit: For loss of working capacity of at least 67%: 80% of average wage over last 3 years, but not less than minimum standard of living.
Partial disability (at least 33% of working capacity): Benefits equal to 80% of average wage over last 3 years (depending on degree of loss of work capacity), but not less than 50%.
Minor permanent disability (loss of between 10% and 33% of working capacity): Lump sum determined in accordance to regulations. Material damages incurred by the insured person are compensated in full.

Workers' Medical Benefits

Medical benefits: Compensation available for additional medical care, rehabilitation, etc. required to recover lost capacity.

Survivor Benefits

Survivor pension: 50% for surviving spouse, 25% for each orphan, parent, grandchild, grandparent, subject to a maximum of 100%, of pension of the deceased. Orphans have right to survivor's pension even if the surviving parent is economically active or receives a pension, but it is subject to a maximum of 50% of the pension of the deceased.

Death benefit: Equal to 1 month's basic old age pension.

Administrative Organization

Ministry of Labour and Social Affairs, general supervision.

Social Insurance Institute, administration of program.

Unemployment

First and current law: 1993.

Type of program: Social insurance.

Coverage

Employees.

Source of Funds

Insured person: None.

Employer: See pension contributions above (pays 6% of payroll).

Government: None. (Covers deficit.)

Qualifying Conditions

Unemployment benefit: At least 1 year's contribution, receiving no other benefits (except for partial disability), registered at unemployment office, and willing to undergo training.

Unemployment Benefits

Unemployment benefit: Flat rate providing at least for a minimum standard of living, as decided by Council of Ministers. (4,000 leks per month as of 1998.) Payable for up to 12 months or for a total of 365 calendar days where there are temporary periods of employment. Supplement for dependent children under age 15: 5% of unemployment benefit for each child up to a maximum of 20% (Reduced by 50% if one parent is employed or receiving a pension). Persons attending training courses but not receiving stipends or wages: benefits payable up to 18 months.

Adjustment: Indexed annually in accordance with price changes of selected commodities.

Administrative Organization

Ministry of Labour, Emigration and Social Affairs, general supervision.

National Employment Service, administration of payment of benefits.

Social Insurance Institute, administration of contribution collection.

Family Allowances

Current law: 1993, amended 1994, 1995, and 1998.

Type of system: Social insurance and public assistance.

Coverage

Insured persons and resident families.

Source of Funds

Insured person: See pension contributions above.

Employer: See pension contributions above.

Government: Total cost of public assistance.

Qualifying Conditions

Family allowances: Insured person entitled to disability pension or unemployment benefit with dependent children under age 15; insured person or pensioner in case of death of dependent family member. Caregiver of deceased insured person who paid funeral expenses. Beneficiary of disability pension requiring constant care according to medical experts decision.

Family Allowance Benefits

Family allowances: 5% of the basic pension or unemployment benefit for each dependent child up to a maximum of 20%. Family supplement, 15% of pension.

Death benefit: Equal to 1 month's basic old-age pension.

Means-test: 494 leks per employed person; 414 leks for children, dependents, and unemployed dependent of employed person; 350 leks per month for employed in private sector; 1,700 leks for disabled requiring constant care; 1,500 leks for disabled due to employment accident and incapable of work, 1,300 leks if partially incapable of work; and 1,500 leks if paralyzed or disabled requiring constant care. In case of blindness, 70% of minimum monthly wage earned in state sector regardless of age or other income.

Administrative Organization

Ministry of Labour and Social Affairs, general supervision.

Social Insurance Institute, administration of program.

Appendix 8: Some Key Issues in the DRAFT Albanian Insurance Law (as at 23.4.04)

Insurance classes (1-18 are non-life classes, 19-23 are life classes)

1. Accident insurance (including industrial injuries and professional diseases) covers:
 - 1.1 immediate monetary compensation of the total amount agreed upon for damage compensation.
 - 1.2 monetary compensation with instalments of the total amount agreed upon for damage compensation.
 - 1.3 combination of 1.1 + 1.2
 - 1.4 compensation to injuries, health disorders, or death of the passengers.
2. Diseases insurance:
 - 2.1 fix financial income from health disability.
 - 2.2 reimbursement of expenses of hospitalization.
 - 2.3 combination of 2.1 + 2.2
3. Insurance of ground equipments (different from those that move on tracks) covers damages or losses by:
 - 3.1 motor land equipments
 - 3.2 non- motor land equipments.
4. Insurance of equipments that move on tracks covers damages or losses by equipments that move on tracks.
5. Insurance of airplanes covers damages or losses suffered by air equipments.
6. Insurance of ships covers damages or losses suffered by:
 - 6.1 river and channel ships
 - 6.2 lakes ships
 - 6.3 sea ships
7. Insurance of goods being transported (including goods, luggage and all kinds of things) covers all damages or losses of goods or luggage during transportation, no matter what type of transportation.
8. Insurance from fire and nature power covers all the damages or losses of things (other than those included in points 3, 4, 5, 6 and 7) caused by:
 - 8.1 fires
 - 8.2 explosions
 - 8.3 storms
 - 8.4 nature power
 - 8.5 nuclear energy
 - 8.6 landslide
9. Insurance of other damages of property covers all damages or losses of property (other than those included in points 3, 4, 5, 6 and 7) when the damage is caused by hail freezing, and every other happening such as theft, other than those mentioned at point 8.

10. Insurance of civil responsibilities from using automobiles covers all responsibilities that rise after from using automobiles on ground (including the transporter's responsibilities).
11. Insurance of civil responsibilities from using airplanes covers responsibilities that rise from using airplanes (including the transporter's responsibility).
12. Insurance of civil responsibilities for ships (sea, lakes and river ones, as well as channels) that rise from using ships or boats (small ships) that sail on sea, lakes, rivers, and channels (including the transporter's responsibilities).
13. Insurance of general civil responsibilities covers all responsibilities, besides those mentioned in points 10, 11, and 12.
14. Insurance of credit covers:
 - 14.1 the risk of non- payment because of insolvency circumstances;
 - 14.2 export loans and other risks that accompanied with export, trading, and investments in or out of a country.
 - 14.3 loans paid back with instalments.
 - 14.4 mortgage loans and Lombard loans.
 - 14.5 agricultural loans;
 - 14.6 other loans;
15. Insurance of guarantees covers
 - 15.1 direct guarantees;
 - 15.2 non- direct guarantees;
16. Insurance of different financial losses covers financial losses caused by:
 - 16.1 danger while working;
 - 16.2 lack of income (general);
 - 16.3 bad whether;
 - 16.4 income losses;
 - 16.5 general not foreseen expenses;
 - 16.6 trading not foreseen expenses;
 - 16.7 market value losses;
 - 16.8 rent and income losses;
 - 16.9 indirect losses from trading, other than those mentioned above;
 - 16.10 financial losses (other than the trading ones);
 - 16.11 other financial losses
17. Insurance of legal protection covers:
 - 17.1 expenses for legal or court services;
18. Insurance of assistance (supportive) covers:
 - 18.1 assistance for the people that face difficulties while travelling or in other occasions of being way from home and the permanent shelter.
19. Insurance of life- death covers:

19.1 insurance for surviving up to a set age, insurance of death, insurance of surviving up to a set age or unanticipated premature death, insurance of life and with reimbursement of premiums.

20. Insurance of marriage- birth covers:

20.1 Expenses that go along with the marriage or children birth.

21. Insurance of life linked to investment funds covers:

21.1 insurance of life linked to investment funds, where the individual insured takes over the risk of investing linked to the value of shares, bonds etc...

22. Insurance of administration of collective funds covers:

22.1 insurance of joint individuals for the purpose of capitalization of their contributions and distribution of actives in rapport with accumulated funds.....

23. Insurance of funds for payments, which covers insurance of life based on actuarial calculations, according to which, for a single or periodic payment agreed upon, the individual insured gets compensated for the given period and amount.

Classification in insurance groups:

1. Class no. 1 and 2 will be named "Accident and health insurance".
2. Class no. 1 (paragraph 4), 3, 7, and 10 will be named "Motor insurance".
3. Class no.1 (paragraph 4), 4, 6, 7 and 12 will be named "Marine and transport insurance".
4. Class no. 1 (paragraph 4), 5, 7, and 11 will be named "Airplane insurance".
5. Class no. 8 and 9 will be named "Fire insurance and other damages in property".
6. Class no. 10, 11, 12, and 13 will be named "Responsibilities insurance".
7. Class no. 14 and 15 will be named "Credit and guarantee insurance".
8. Class no. 19, 20, 21, 22, and 23 will be named "Life insurance".

Mandatory reserves:

An insurance company creates and maintains with its own resources every fiscal year the safety reserve (mandatory) in the following levels:

- a. Not less than 1/3 of the profit of the current year, if the profit is not used to cover losses accumulated from the previous years.
- b. Insurance company has accumulated mandatory reserve in a level not less than 30% of average premiums collected in the last two years, when the earlier years premiums have risen as a result of a rise in the price index, including even the year for which the profit has been distributed, has no obligation to create mandatory reserve from profit
- c. This reserve is accumulative and does not exceed 30% of the total of premiums collected in the last two years.

Founding Capital:

- Insurance company must have founding capital, not including contribution in nature, not less than the value determined at article 98.
- Besides the founding capital, the company must have an additional fund to cover the founding expenses, which in every occasion must not be less than 5% of founding capital.
- At least 2/3 of the founding capital must be cash.

Guarantee Fund (Article 98)

Guarantee fund of an insurance company is equal to 1/3 of the required liquidity capability. Nevertheless, the guarantee fund of an insurance company that is part of non- life insurance class, can not be lower than the minimum boundaries below:

- a. 100 million ALL if the company conducts its activity in classes 10, 11, 12, 13, and 15.
- b. 70 million ALL if the company conducts its activity in classes 1, 2, 3, 4, 5, 6, 7, 8, 16, and 18.
- c. 50 million ALL if the company conducts its activity in classes 9 and 17.
- d. 350 million ALL if the company covers all or some of risks of class 14... if the total annual premiums for this class exceeds the amount of 35 million ALL or 4% of total annual premiums of insurance company.
- e. 200 million ALL if the company covers all or some of risks of class 14... if the total annual premiums for this class for each one of the last three years exceeds the amount of 35 million ALL or 4% of total annual premiums of insurance company.

However, **the guarantee fund** of an insurance company within the class of **Life insurance** cannot be lower than the following minimum boundaries:

180 million ALL to initiate the activity, if the company conducts business in life insurance in class 19, 20, 21, 22, and 23....

However, **the guarantee fund** of an insurance company within the class of **Non-life insurance** cannot be lower than the following minimum boundaries:

- 180 million ALL if the company conducts reinsurance activity.
- Minimum boundary of the guarantee fund for a company that covers the risks of some classes of non-life insurance, must be equal to minimum boundary of the guarantee fund of insurance classes for which there has been foreseen a higher boundary.
- The guarantee fund is deposited in a bank account in Albanian territory....
- Guarantee fund can be invested only in the banking system: treasury bonds and time deposits not less 1 year.

Requirements for licensing (Article 23):

- a. Founding act.
- b. Project statute.
- c. The proposed name and address of the headquarters.
- d. List of shareholders, information on the nominal value of the shares, holding percentage in the capital and a certificate by the authorities for payment of taxes by shareholders.
- e. Information for the origin of the capital of the shareholders.....
- f. Program of activity planned in accordance with article 24.
- g. List of proposed members of the managements, together with the information.....
- h. Organizational chart in the centre and branches together with the list of individuals proposed for the high management in the centre.
- i. Certificate for depositing half of the founding capital in the court...
- j. Project-contracts for giving to the third parties special functions in the activity of the insurance company.....
- k. Name of the banks with which the company will operate.

Period of time needed to give the license (Article 30)

“Authority” makes a decision within two months from the date of submitting the official request (documentation). “Authority” has the right to postpone the time line of going through the documentation, up to three months, if this can be objectively justified.

Requirements for licensing a foreign company (Article 39).

The interested foreign company presents a written formal request to the “Authority” in Albania for the licensing of its branch together with:

- The decision of the highest management of the foreign insurance company for the opening of the branch in Albania.
- A certificate that the company has had insurance activity at least 5 years in the country of origin.
- The decision taken to appoint the branch administrator, his/her competences of representation in relationship with the state administration and courts.
- The founding act and its statute.
- The license for running insurance activity, given by the authority of the country where the headquarters of the company are.
- Official approval for opening of the branch of the foreign company given by the supervising authority of the country where the headquarters of the company are.
- The program of the activity of the branch outlined accordingly to the requirements of article 24.

Article 24- Activity program is prepared for three first years and contains:

- a. *Classes of insurance to be licensed for*
- b. *Anticipations for going to reinsurance, including tables of maximum coverage for all classes of insurance.*
- c. *Calculation of the required level of liquidity capability.*
- d. *General conditions of insurance contracts for the classes that they have applied for.*
- e. *Tariffs and premiums that they have estimated to implement for the classes that they have applied for.*
- f. *Business plan.*

Business plan for the first three year consists of (part of Article 24)

- a. *A short form of balance sheet and financial tables.*
- b. *Estimations for premiums and cashed claims.*
- c. *Cash flow.*
- d. *Financial resources to fulfil the obligations that the company with take over and to maintain the required level of payment capability.*
- e. *Anticipated profit.*
- f. *Calculation of technical provisions and methods used for this calculation.*
- g. *Etc....etc....etc....etc....*

Administrator of the foreign company branch (Article 40)

Must have the following qualifications:

1. University degree
2. No less than three years of experience in the management of insurance companies or financial institutions.
3. Professional qualification.
4. Penalty certification.
5. Have no legal obstacles to work in this profession.

The agents and agents' company (Article 77)

An agent works on behalf or for an insurance company or foreign company branch.

An agent or licensed agents' company runs the activity only on behalf of one company, not including when the contracts between agent & agents' company and the insurance company it is seen in a different way.

Agent and agents' company cannot have life and non-life activity at the same time.

Agent's company can be founded by locals or foreigners.

Banks as agents: Activity of agents in insurance can be done by other entities that have activity in the field of services with the condition that they should hire licensed agents by the "Authority". The field of services is determined by the Council of Ministers.

Broker company (Article 79)

A broker company is founded with the headquarters in Albania to run insurance or reinsurance activity with a minimum capital 10 million ALL.

A broker company can have intermediary activity in insurance and reinsurance.

Nevertheless, banks can exercise the activity of a broker company, after they have got approval by the Bank of Albania and licensed by "Authority".

Financial guarantee (Article 80)

A broker company must have a financial guarantee, equal to the minimum capital required at article 79 (10 million ALL (US\$93,000)).

A broker company also insures its own professional responsibilities to the third parties for covering of responsibilities, in the occasions of breaking the terms of the contract with them, in a amount not less than 30 million ALL (US\$0.28million) for one insurance or not less than 60 million ALL (US\$0.56million) for all of the insurances in a year.

Licensing of intermediary in insurance and reinsurance (Article 81)

To get the license from the authority an applicant must fulfil:

- a. trustfulness criteria, and
- b. professional abilities criteria

The license for intermediary activity is not transferable, and is given for a specific period of time. Criteria, procedure, period of validity of license, occasion when it is refused as well as the supervising rules are determined by the Council of Ministers.

INSIG Life department in the near future

Article 178:

- Insurance companies and /or reinsurers licensed before this law is approved will continue their activity in insurance and reinsurance accordingly to the license that they already have.
- Insurance companies of the first paragraph get the approval by the "Authority" in accordance with this law within one month from when the law has been approved.

Article 179:

- "Authority" has the right to authorize an insurance and/or reinsurance company at the same time to have **Life** and **Non-Life activity**, for as long as no other Life insurer has been licensed.

Appendix 9: Some comments on qualitative versus quantitative research

Market research is a critical step in understanding a market and the consumers within it. It is appropriately used at critical points along the process of a controlled product development process. Two broad types of market research may be conducted: “qualitative” research and “quantitative” research. These methods have significant differences, as noted in the table below.

	Qualitative	Quantitative
Use/Objective	To gain an in-depth understanding of consumer behaviour and attitudes	To measure behaviour and attitudes
Method	Facilitated questioning (open-ended, probing questions, controlled discussion)	Structured surveys (focused, prompting questions, just Q&A)
Participants	Homogeneous, small groups	Statistically representative sample of a population
Output	Consumer words and descriptions	Coded responses
Required Skills	Focus group / PRA facilitation training and expertise	Statistical analysis and survey design

Thus, qualitative research is commonly used in the initial phases of market research while quantitative research is typically used when there is already a product prototype. Quantitative research is inappropriate for exploring the rich complexity of human life and thus market needs. It is difficult to formulate appropriate qualitative questions when there is not a clear idea of the product itself. Thus, quantitative approaches will be more appropriate when seeking to quantify the level of demand for a well-defined product prototype.

Qualitative research is best for generating ideas and concepts, and gaining an understanding of behaviours and attitudes to find out why people behave or think the way they do. It is good for developing ideas to refine existing products, develop new products, identify potential new programmes, and plan new marketing or advertising campaigns.

For these reasons qualitative research was used in this study to understand better the risks people faced, how they address them, and where gaps might be that could lead to potential interventions. It provided a good understanding of what people thought of insurance, and what they felt they needed.

Qualitative research does have some limitations as a result of the limited numbers of participants, and the probing methodology. The results are not necessarily representative of a market because the numbers of participants is limited, and because of the level of interpretation, it is possible that an analyst with a particular point of view may interpret the thoughts and comments selectively to support that view. For these reasons, the researchers and analysts selected for this project (for Uganda, Albania, and Georgia) are all fully trained and certified MicroSave microfinance researchers. MicroSave is recognised as one of the most important microfinance market research training organisations in the world. More information on participatory rapid appraisal and its benefits in this type of research is available from www.microsave.org.

Appendix 10: Glossary of Selected Insurance Terms

Accident: An event that is unforeseen, unexpected, and unintended.

Actuary: A person who calculates insurance and annuity premiums, reserves, and dividends.

Adverse Selection: Tendency of persons with a higher-than-average chance of loss to seek insurance at standard (average) rates, which, if not controlled by underwriting, results in higher-than-expected loss levels

Agent: An insurance company representative who solicits, negotiates or effects contracts of insurance, and provides service to the policyholder for the insurer, usually for a commission on the premium payments.

Beneficiary: The person or financial instrument (for example, a trust fund), named in the policy as the recipient of insurance money in the event of the occurrence of an insured event.

Benefits: The amount payable by the insurance company to a claimant, assignee, or beneficiary under each coverage.

Broker: A sales and service representative who handles insurance for clients, generally selling insurance of various kinds and for several companies. Brokers resemble agents, except for the fact that, in a legal sense, brokers represent the party seeking insurance rather than the insurance company.

Claim: A request for payment of a loss that may come under the terms of an insurance contract.

Commission: The part of an insurance premium paid by the insurer to an agent or broker for services in procuring and servicing the insurance policy(ies).

Comprehensive medical expense insurance: Insurance that provides coverage, in one policy, for basic hospital expense and major medical expense.

Co-payment: Mechanism, used by insurers to share risk with policyholders and reduce moral hazard, which establishes a formula for dividing the payment of losses between the insurer and the policyholder. For example, a co-payment arrangement might require a policyholder to pay 30% of all losses while the insurer covers the remainder.

Covariant risk: A risk, or combination of risks, that effects a large number of the insured items/people at the same, for example an earthquake, or a major flood.

Coverage: The scope of protection provided under a contract of insurance, and any of several risks covered by a policy.

Credit Life Insurance (or “Outstanding Balance Life Insurance”): Insurance coverage that repays the outstanding balance on loans in default due to the death of the borrower. Occasionally, partial or complete disability coverage is also included.

Deductible(s) (or “Excess”): Mechanism, used by insurers to share risk with policyholders and reduce moral hazard, which establishes an amount or percentage which a policyholder agrees to pay, per claim or insured event, toward the total amount of an insured loss.

Disability: Physical or mental condition that prevents a person from performing one or more occupational duties temporarily (short-term), permanently (long-term), and / or totally (total disability).

Disability benefit: A feature added to some life insurance policies providing for waiver of premium, and sometimes payment of monthly or lump sum income, if the policyholder becomes temporarily, totally and / or permanently disabled.

- Distribution Channel:** Type of process used to deliver insurance policies to clients. Direct marketing and agents are two examples of different distribution channels
- Endowment policies:** The insurer pays a lump sum at the end of an agreed period of policyholder investment.
- Exclusions (or “exceptions”):** Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments.
- Experience:** The record of claims made or paid within a specified time period.
- Fraud:** Intentional perversion of truth in order to induce another to part with something of value.
- Group Insurance:** Insurance written on a number of people under a single master policy, issued to their employer or to an association or other organization with which they are affiliated.
- Group life insurance:** Life insurance on a group of people under a master policy that usually does not require medical examinations. It is typically issued to an employer for the benefit of employees, or to members of an association or some other related group, for example, a professional membership group. The individual members of the group generally hold evidence of their insurance.
- Health insurance:** Coverage that provides benefits as a result of sickness or injury. Policies include insurance for losses from accident, medical expense, disability, or accidental death and dismemberment.
- Insurable interest:** A financial reliance you have on someone (such as a spouse) or something that can be covered by insurance. For example, you need an "insurable interest" in someone in order to buy a life insurance policy on that person's life.
- Insurable risk:** The conditions that make a risk insurable are (1) the peril insured against must produce a definite loss not under the control of the insured, (2) there must be a large number of homogeneous exposures subject to the same perils, (3) the loss must be calculable and the cost of insuring it must be economically feasible, (4) the peril must be unlikely to affect all policyholders simultaneously, and (5) the loss produced by a risk must be definite and have a potential to be financially serious.
- Insurance:** A risk management system under which individuals, businesses, and other organizations or entities, in exchange for payment of a sum of money (a premium), offers an opportunity to share the risk of possible financial loss through guaranteed compensation for losses resulting from certain perils under specified conditions.
- Insured:** The policyholder - the individual(s), businesses, other organizations or entities protected by an insurance policy in case of a loss or claim.
- Insurer:** The party to the insurance contract who promises to pay losses or benefits.
- Lapse:** The termination or discontinuance of an insurance policy due to non-payment of a premium.
- “Law of Large Numbers”:** Concept that the greater the number of exposures (for example, lives insured), the more closely will actual results approach the results expected from an infinite number of exposures. Thus, the larger the number of people in the insured risk pool, the more stable the likely results of risk event occurrences.
- Loss Ratio:** The ratio of claims during a certain period divided by the premiums for that same period.

Microinsurance: Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use microinsurance, where it is available, as one of several tools to manage risks.

Moral hazard: Hazard arising from any non-physical, personal characteristic of a risk that increases the possibility of loss or may intensify the severity of loss for instance bad habits or low integrity. An example might include failing to properly care for an insured goat because it is insured, thereby increasing the chance it will die of disease.

Mortality table: An actuarial table based on mortality statistics over a number of years.

Mutual Insurer: Insurance in which the ownership and control is vested in the policyholders, who elect a management team to conduct day-to-day operations.

Pensions: The insurer pays an agreed amount to the beneficiary for an agreed period based on a regular investment of the beneficiary until the date disbursement commences.

Policy: The printed document issued to the policyholder by the company stating the terms and conditions of the insurance contract.

Policy term: The period for which an insurance policy provides coverage.

Premium: The sum paid by a policyholder to keep an insurance policy in force.

Property insurance: Insurance providing financial protection against the loss of, or damage to, real and personal property caused by such perils as fire, theft, windstorm, hail, explosion, riot, aircraft, motor vehicles, vandalism, malicious mischief, riot and civil commotion, and smoke.

Reinsurance: A form of insurance that insurance companies buy for their own protection. One or more insurance companies assume all or part of a risk undertaken by another insurance company.

Reserves: An amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding.

Risk: The chance of loss. Also used to refer to the insured or to property covered by a policy.

Risk Management: Systematic process for the identification and evaluation of pure loss exposures faced by an organization or individual, and for the selection and implementation of the most appropriate techniques for treating such exposures.

Risk Pooling: Spreading of losses incurred by a few over a larger group, so that in the process, each individual group members' losses are limited to the average loss (premium payments) rather than the potentially larger actual loss that might be sustained by an individual. Risk pooling effectively disperses losses incurred by a few over a larger group.

Settlement: Payment of the benefits specified in an insurance policy.

Term insurance: A plan of insurance that covers the insured for only a certain period of time (term), not for his or her entire life. The policy pays death benefits only if the insured dies during the term.

Underwriter: (1) A company that receives the premiums and accepts responsibility for the fulfilment of the policy contract. (2) The company employee who decides whether or not the company should assume a particular risk.