LIFE INSURANCE AND LIVING CULTURE

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Abstract
Life insurance is one of the most essential security products. Unexpected and unforeseen events can occur at any time, so it's always important to have a Life Insurance policy.

The paper analyses the life insurance market in Albania to show how it is evolved and focuses mainly on the level of economic and social development of this voluntary insurance in relation to compulsory insurance.

The main purpose of this study is to understand and evaluate the perception of Albanian consumers for life insurance, to recognize if they are willing to pay for insurance policies and to discover the reasons for this low level of development. Various observations have been made for this topic and the results revealed that the most used insurance policies are mandatory and the level of knowledge about the importance of life insurance is low.

Studies also indicate that the life insurance market in Albania is still in the early stages of development and we can say that it is underdeveloped in comparison with the region countries. Therefore, it is very important to propose recommendations to stimulate the economic development of this market and to create a sustainable culture for voluntary life insurance.

Keywords: consumer perception, insurance market, life insurance, living culture, voluntary insurance.

JEL codes: G22, G32.

1. Introduction

Life insurance sector is one of the most important sectors of the economy. Life insurance is a financial protection form of the human being in different life hazards. The life insurance market in Albania is still in his early development stages and we can say it is undeveloped compared to other countries in the region. Based on these problems our paper aims to achieve the following objectives:
1) To explain the importance of life insurance and available alternatives for Albania.
2) To understand the life insurance market development in Albania.
3) To understand the Albanian consumer perceptions in relation to this market.
4) To explain factors that influence consumer perception to this market.
5) To analyse various opportunities to stimulate further market development.

2. What does life insurance represent and its importance

The meaning of life is a slow and attractive process and we feel its mystery, but never giving up, everyone lives and earns. Everybody wants to insure his life from every day risks. Life insurance is one of the oldest insurance activities in the world. At the beginning, the government provided compensation for the soldiers killed in the battlefield later the solidarity schemes preceded life insurance. For more than 200 years, life insurance has been sold in the form of a genuine financial product, life insurance as a combination of savings and insurance. With the term savings we mean long-term savings for a better future, which is distinguished from other insurances. Life insurance is included on the insurer's obligation to pay the insured amount. The insurer performs this payment in case of death or survival, based on the premium insurance paid by the insured. Life insurance as a financial product has as many insurance product features, as an investment. Compared to other insurance products, in life insurance we cannot speak about damage, because usually we are dealing with long-term contracts and the beneficiary may not be the insured. Life insurance is one of the activities that is developing recently due to the growing uncertainties that a person may have in life as well as the accidents they may face. For this reason, there is a kind of insurance that would cover most damages in cases of a disaster or accident within his county or abroad.

2.1. The importance of life insurance

During one's life may occur unpredictable events which have serious economic consequences for the family. Here we can mention natural and accidental deaths, illnesses that cause disability to work, burn, theft of property, etc. Insurance can cover economic consequences of these events.

Life is threatened by several factors:
1) Physiological factors: here are included illnesses and epidemics, mother's risk during pregnancy, loss of work skills because of old age, and other illnesses that may prevent a life activity.
2) Natural factors: earthquakes, tsunamis, floods, thunderclaps, frosts, storms, low and high temperatures are events of natural origin that threaten, destroy, and often cause great damages and catastrophes.
3) Factors from useful human activity: they are risks caused by daily work, human errors, negligence, lack of workplace protection rules, or intellectual mistakes.
4) Aggressive factors: here we can include terrorism, war, criminal activity, etc. These phenomena are provoked and caused by human conscience are products of a criminal, sick and abnormal mind. We should bear in mind that the greatest human asset is the ability to generate incomes from honest work. Depending
on the years left for work, this skill has greater value than the wealth that the
individual has created during his lifetime. When someone dies, the family must
afford many expenses which in some cases reach considerable sums. These
expenses include funeral expenses, medical treatment and medications,
documentation costs, loans or unpaid loans to financial institutions or
individuals, property transfer taxes such as transfer to homeowners, bank
accounts, investments etc.

Family difficulties can be caused by accidents at work which may lead to
a person's inability to work because, apart from the fact that this individual cannot
generate more incomes, he/she also requires higher and additional costs compared
to the members of the family. Another case is the fact that over the years,
the ability to work is reduced, because age influence the ability to work and the
provide incomes. According to (Bundo and Lito 2014, p. 262), these situations
have a major impact on a family, as they have such consequences:

1) Psychological consequences: the loss of a family member creates a very
difficult psychological situation for other family members.
2) Social consequences: in case of a family member death, its social status
changes. The children's life as orphan and the spouse loss are social problems.
3) Economic consequences: the loss of life or the reduction of work ability brings
the decrease of income sources.

It is difficult to avoid psychological or social consequences, but economic
consequences can be reduced through financial products that today constitute the
life insurance industry.

From a broader perspective, life insurance fulfills one of the financial objectives
in human life, which is to leave wealth to successive generations. Thus, life
insurance is equivalent to other inherited assets such as home, accounts in
financial institutions, businesses etc.

2.1.1 Defining the premium on life insurance

Life insurance premiums are mortgage tables, from which premium calculations
begin. The insurance premium is directly related to the age of the insured. The
older the age, the higher the premium.

The premium for men is also higher than women. It is clear that the greater the
amount insured, the higher the premium that the insured has to pay. At the same
time, life insurance premiums may increase from the charges applied to the
individual's characteristics. So, a sick person may have a much higher premium
than a healthy person.

As a conclusion, we can say that life insurance is very important and the premium
we have to pay as well as the amount we need to insure is calculated by taking
into account all the above-mentioned factors.

2.2. Risks that threaten our lives

People consider their life and the lives of their loved ones as very important.
Life is always exposed to risks. Risks that can affect life are of various origin and
background.
Life insurance and living culture

Some risks that threat people's lives are:
- **Risk of early death:** This concept means death during the main life cycle stages.
- **The risk of disability (temporary or permanent):** There are risks that cause health damage, damages that causes temporary or permanent disability. In addition to the loss of working ability and capacity to generate incomes, these risks are also associated with medical expenses.
- **The risk of life expectancy:** People want to live long, but long life has its own risks. With passing of age, job ability is lost. Also, old age is accompanied by the increased need for medical care, and this has its cost.

3. Life insurance and lifestyle

An important aspect of human's life and evolution, since ancient times, has been the anxiety for the future. Our life events occur rapidly and are unpredictable. We need to be insured, in order that our family become safe and have the necessary financial support. Life insurance is a form of human protection toward various types of risks. On the other hand, consumers are considered as a very important part of the company shareholders. This paper aims to bring together these two parts of the insurance market, by analysing the insurance company performances on one side and the consumer perception on the other side.
Life insurance serves as a guarantee to regular incomes or insurance holder (his/her spouse or children and in some cases any other person) in case of death or the person himself if he survives.
Life insurance has three features:
1) insurance for a long period of time,
2) the insurance is realized for a fixed amount,
3) capital accumulation.

Regarding Albania, we can say that it is still in the early stages of insurance market development. The Albanian insurance market is a diversified market with companies dealing with life and non-life insurance, with domestic and foreign capital operating in Albania and abroad. This insurance market is poorly developed compared to other countries in the region and is dominated by compulsory insurance. Despite the problems that this new market faces, there are opportunities for growth, development and perfection.
Life insurance is a mentality issue in all developing countries. Often, we think of the life insurance necessity, only when happens an accident, or when this accident occurs in our family. So, it is good for people to start thinking about life insurance with imagining what happens if the person who provides family incomes dies, or if this person loses work due to an accident or illness. Perhaps, later, they may also consider using life insurances as an alternative savings plan. Most developed countries have established tax benefits to make insurance products more attractive, by combining them with investments. According to three life insurance companies in Albania, Sigal Uniqa, Sicred sh.a, Insig sh.a, the premiums are affordable and people should think to start saving. The increase of consumer awareness for these products is very important. Major insurance companies,
should provide easier understandable products, and should make their products usable.

At first people tend to make insurance only for the debtor's life, because this is mandatory by the banks. But then, people realize that they have to start saving due to the pension problems faced by most countries. They can understand that insurance combined with investment can really be a very good alternative investment for those who are conservative. Consumer protection and public awareness are very important in this process. Perhaps with the passing of time, Albanians would be ready to invest even in more complex products, in products that are related to investment funds, which are used in most developed countries for retirement planning.

Life insurance is a good way to ensure the future of your family. In developed countries, insurance and life insurance has become a good necessity for the daily activity of each citizen.

The development of insurance has improved the people opportunities to choose among the most appropriate forms of life insurance and general insurance. Its role in saving and financial mobilization is of particular importance. Life insurance is a good way to ensure the future of your family. In developed countries, life insurance has become a necessity for every citizen's daily activity. Also, a country with a strong private security sector indicates the economic development of that country.

3.1. Classification of life insurance

The main products of life insurance are as follows (Bundo and Lito 2014, p. 287):

- Individual life insurance is the most widespread insurance that occupies the main place in the world life insurance market. It is about all the types of insurance that can be sold to an individual. Usually this type of insurance is sold through agents or other forms of marketing but always through direct contact to the insured.

- Life insurance in group is that type of insurance that is mainly provided by companies in favour of their employees. Enterprises can choose to provide life insurance as a form of employee benefit. In developed countries, this is a very widespread practice and companies compete each other to attract skilled workers through this kind of benefit.

- The life insurance of the debtor is closely related to the lending activity. This type of insurance is usually sold by commercial banks and non-bank lending institutions. It intends to protect the creditor from the earlier death of the borrower. In this case, it is not insured the beneficiary or his/her family, but the lending institution.

- Student life insurance is a type of insurance product for young people. In addition to promote security and the creation of a culture for young people safety, this type of product is often combined with health insurance.

- Second death insurance is a life insurance scheme which pays the compensation when the second spouse dies. The advantage of this insurance is its lower cost compared to two insurances purchased separately by each spouse.
and therefore may be appropriate for some families, especially in cases when they leave a considerable inheritance to their children.

- **Life insurance in travel** is a temporary insurance, with reduced period of time, a few days or a few weeks, which is used as security for vacations or business trips.

- **Marriage or maternity insurance** is a special insurance provided by the Albanian insurance legislation categorized in life insurance, which covers the costs of marriage and childbirth within a certain time.

- **Life insurance with reduced premiums** is a form of insurance used in industrial developed countries and with long term statistic data, which offers reduced premiums to individuals whose life risk is lower than the average.

3.2. **The development of life insurance in Albania. Market in transition**

According to OECD (2016), life insurance is relatively undeveloped in European's emerging markets, since 1998 the life insurance introduction (gross direct premiums/GDP) was only 0.43% in Central and Eastern European countries. In contrast to them, during the same year, OECD countries dedicated to life insurance 4.58% of the total GDP. Although the insurance in Albania, started late in comparison to other developed countries, it holds its own characteristics and history. The history of insurance market in Albania begins before the Second World War, when the insurance activity was led by the English, French and later Italian insurance companies. Insurance in Albania is a relatively a new industry, although they originated in the 1900s.

In developed countries almost everyone has life insurance, while in Albania we can say that this is still a luxury. It is not known yet that life insurance is a form of saving and saving investment. The Albanian insurance market is a diversified market with life and non-life insurance companies. The insurance market is still not very developed, 40 Euro/capita compared to developed countries $600/capita (1USD = 0, 9474 €) and is dominated by compulsory insurance. Albania is a country that has made significant improvements during the transition period, from the communist regime to the market economy (AFSA 2016).

Actually, there are three insurance companies in Albania that are certified to sell life insurance products, INSIG sh.a (established in 1991), SIGAL UNIQA (established in 1999), and SICFED SH.A (established in 2003). They have played a significant role in the creation, development and consolidation of the Albanian insurance industry, especially life insurance.

The Albanian Financial Supervisory Authority (AFSA) serves as a regulatory institution in Albanian security market. It is established in 2006, and is a public independent institution. The AFSA is responsible for the regulation and supervision of non-banking financial system and the operators of the sector. Albanian Financial Supervisory Authority in its periodic publications about insurance market introduces the structure of this market for life insurance and market performance in terms of gross written premiums for 2017 compared to 2016.
Table 1. Gross written premiums 2016-2017 (1€=132.950 ALL)

<table>
<thead>
<tr>
<th>Aggregation type</th>
<th>Value (in thous. ALL)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>977,851</td>
</tr>
<tr>
<td>Non-Life Insurance</td>
<td>14,305,843</td>
</tr>
<tr>
<td>Reinsurance accepted</td>
<td>83,946</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>15,367,640</strong></td>
</tr>
</tbody>
</table>

Source: AFSA, December 2017, p. 4.

According to these statistics, gross written premium incomes for 2017 reached over 16,193 million ALL, or 5.38% more than in 2016. The market continued to be oriented to non-life insurance, which occupied 92.06% of the total premium volume and Life insurance 7.44% respectively. While the number of life insurance contracts was 173,917, by marking an increase of 53.08% compared to 2016. Below it’s the life insurance structure specified according to its main sectors.

![Life insurance structure diagram](image)

**Fig. 1.** Market structure — Life insurance

Source: AFSA, December 2017, p. 4.

It is noticed that debtor life insurance, which is a compulsory insurance, demanded by the lending institutions, occupies the major part that is 60%, followed by other voluntary insurance, life insurance 12.53% and others 27.47%.

So once again it is confirmed that Albanian consumers first of all use debtor life insurance as it is compulsory by the banks. Then, they start saving because of the pension problems they may face in the future and finally they realize that combined insurance may be a very good investment alternative, by using even other products that Albanian life insurance market provides.
3.3. Albanian consumer perception and culture to life insurance

In our study, we aim to reflect the cultural level of Albanian consumers related to life insurance in Albania and how do they perceive it. For this purpose, we have used some of the results obtained during a detailed research conducted by AFSA in 2014. Albanian insurance companies supported this study by providing necessary data and materials. The target groups of the questionnaire were students, employees as well as members of families with different backgrounds.

In this research, the involved individuals were divided in these categories regarding demographic characteristics: 46% males and 54% females. Most of them were 26-34 and 35-50 years old (with 32 and 31%), followed by groups of 51-64 years old (10%), and only 2% were older than 65.

Among them 23% had postgraduate degrees, 53% hold a diploma degree and 22% has been graduated in high school. 50% were married and have children, 25% were single, 20% were married without children and 5% were divorced. In terms of employment, 20% were employed in public sector, 50% were employed in private sector, 25% of them were students and 5% unemployed. Regarding the level of incomes, about 55% had 50,000-100,000 ALL incomes, 35% had 20,000-50,000 ALL. 5% more than 100,000 ALL and less than 5% had less than 20,000 ALL income per month.

The questionnaire was elaborated as follows:

1) Have you ever bought an insurance premium?
70% answered Yes and 30% answered No.

2) What type of insurance have you bought?
Most of the interviewed had purchased life and health insurance for traveling (45%), life insurance as debtor (35%) and life insurance with savings (15%). Other types of insurances occupied a very small percentage.

3) Which company did you choose for your insurance?
Most of them had preferred SIGAL LIFE (55%), INSIG LIFE (30%) and SICRED (15%).

4) Another question was how did they pay the life insurance?
The majority of the insured had bought the insurance through bank (35%) or through an insurance agent (29%).

5) Where did you find the information on life insurance?
39% of them had this information through electronic media (internet), 33% from TV and newspapers, 17% from other sources (colleagues, friends and relatives) and 11% have never heard such information.

6) Is life insurance a life necessity or not?
64% of the participants estimated life insurance as a necessity, which in some way may be reflected in the development level of this market in Albania during recent years. 25% of them do not see it as a necessity and 11% estimate it as complementary insurance.

7) Have you ever thought of buying a life insurance for yourself or your family?
75% of the answers were Yes and 20% No.
8) **What factors have a negative impact on the decision to buy a life insurance?**
About 40% of answers emphasised that the most influential factors in buying an insurance policy was the financial aspect.
The second listed factor was the lack of confidence and trust in insurance companies (35%). This lack of confidence appears to be very significant. It means that insurance companies should apply persuasive practices to clients in order to increase their credibility. Other important factors, even though in a low percentage were: 10% do not think life insurance is necessary, 10% have no knowledge on its importance, and 5% do not easily accomplish such coverage.

9) **Which is the best way to convince people to buy a life insurance?**
Since the level of insurance is low it is very important to find some ways to increase customer confidence in the future. The best way was people awareness about its importance (40%), followed by information on the benefits of life insurance (35%). Education of the new generation is ranked third (15%), followed by the creation of facilities during the insurance process (5%) and promotion of life insurance companies (5%).
From the point of view of our study, the questionnaire summarized results show that the perception of Albanian consumers to life insurance is very positive and it is noticed that they appreciate its importance but still have lack of information about its advantages and disadvantages.
At the same time, Albanians think that this kind of investment is necessary but expensive and has not well defined and clear benefits.
However, from conclusions provided by researchers and specialists in this field, we realize that life insurance is a profitable investment both socially and financially. Promotion, sufficient consumer information and mitigation policies of insurance companies and government for life insurance may improve the people cultural level and will simultaneously expand this market in Albania.

### 3.4. Expected difficulties for the perspective of life insurance in Albania

From the individual’s perspective, life insurance offers many advantages (UNCTAD 1982):
1) Life insurance guarantees to pay a stated sum to a family on the death of its income earner(s). In so doing, it affords families a measure of protection against the adverse financial consequences of premature death, gives individuals a greater sense of economic security, and can help reduce worry and distress and thereby increase initiative. No other privately purchased financial instrument can perform this function.
2) Cash value life insurance can serve as a means through which individuals save. Many persons who might not otherwise save consistently will, nonetheless, regularly pay their life insurance premiums; thus, life insurance might constitute a type of quasi-compulsory savings.
3) Life insurance products, especially annuities, provide a convenient, if not unique, means by which individuals can make financial provisions for retirement.
Despite the advantages that life insurance offers, in the case of Albania there are also some problems that make it difficult to understand and to use this insurance, which can be listed as follows:

- Albanian businesses and companies, as well as the individuals, recently are indisposed to spend more on insurance. This is due to lack of information, absence of education in this regard or financial inability resulting from low income levels.

- Products and life insurance services are offered to customers on optional basis, the premium of life insurance is not compulsory.

- Albanian investors were more interested in short-term investments than long-term investments because of the economic instability during the 1990s which made it difficult to forecast inflation and interest rates.

- Absence of classification agencies, which are specialized in risk assessment and classification, is even more visible in this sector of the economy.

With all the difficulties, the insurance market in Albania continues to grow. It is a highly diversified market, in which operate a number of companies that have a wide geographic distribution within the country. There is an interest in the growth of foreign capital to invest in domestic insurance market as well as for the expansion of this market abroad. These facts express optimism for the future of life insurance market in Albania and further development of the Albanian people's culture in this sector.

4. Conclusion

People consider their life and the lives of their loved ones as very important. So life insurance is the necessary form of human protection in case of various risks such as accidents, illness, disability or death. Considering the importance of life insurance we have made a study about this part of insurance market in Albania. Even in Albania, the life insurance is relatively a new activity, the consumers are not aware of its benefits compared to other countries in the region. The culture of life insurance in Albania is not developed compared to other countries. In this point of view the main purpose of this paper is to understand and define Albanian consumer perception for life insurance, if they are ready to pay for it and to discover the reasons for this low level of its development.

Increasing the public awareness of these products is very important. The big insurance companies should make products easily understandable by people, they should make their products usable, and with clear language. In Albania there are three certified companies that sell life insurance products: SIGAL UNIQA, INSIG sh.a. and SICRED sh.a.

In this situation a question arises: Which are the factors that affected this low level of the market development?

This paper revealed exactly three of the main factors. The first factor is that life insurance is included in the voluntary insurance group, it is not compulsory, as the vehicle insurance is. The second factor that affects the culture of insurance in Albania is the low level of salary, and as result of it, they are not motivated to pay monthly or annual premium for their life. The third factor that negatively
influences life insurance in Albania is the mentality or culture of Albanian consumers that don’t precedes their health problems or other accidents that threaten their lives.

However, these results can contribute to the future work in order to ensure the further development of this market, although Albanian consumers are becoming aware of life insurance importance and this awareness will be further strengthened over the time, as there is a lack of information in this regard.

Also there is a growing interest from foreign capital to invest in domestic insurance market as well as for the expansion of this market abroad. An important role will play the information and customer concerns about its importance in the future.

In this sense, insurance companies need to expand more promotional activities by informing consumers about voluntary insurance, and life insurance in particular, how important they are and why they should buy it.

References


Insurance Information Institute, www.iii.org


