

THE IMPACT OF THE INSURANCE MARKET ON ECONOMIC GROWTH: EVIDENCE FROM DEVELOPING COUNTRIES

Blerta Haliti Baruti *

* AAB College, Prishtina, the Republic of Kosovo

Contact details: AAB College, St. Elez Berisha, No. 56 Fushë Kosovë Industrial Zone 10000, Prishtina, the Republic of Kosovo



Abstract

How to cite this paper: Baruti, B. H. (2022). The impact of the insurance market on economic growth: Evidence from developing countries. *Corporate & Business Strategy Review*, 3(1), 105–123.
<https://doi.org/10.22495/cbsrv3i1art10>

Copyright © 2022 The Author

This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0).
<https://creativecommons.org/licenses/by/4.0/>

ISSN Online: 2708-4965
ISSN Print: 2708-9924

Received: 21.03.2022
Accepted: 06.07.2022

JEL Classification: A11, G3, G22, G52
DOI: 10.22495/cbsrv3i1art10

The purpose of this study is to understand the development and role of the insurance industry in the development of the economic and financial systems in developing countries with a special emphasis on Kosovo. It is the continuation of the preliminary works where for the empirical analysis, secondary data from the relevant institution and the survey were conducted. The survey was conducted with financial managers from all insurance companies in Kosovo. The analysis shows that the insurance industry has an important role in the development of financial markets and therefore has a positive impact on the development of countries. Also, the analysis of the case of the Balkan countries shows that the factors related to the macroeconomic and financial sectors are important drivers for the future development of the insurance industry. It is worth asking: What role does insurance play in economic development? Where, according to the studies by Arena (2008) and Haiss and Sümegi (2008), and also from this research there is ample evidence that insurance contributes significantly to economic development by improving the investment climate and promoting a range of activities. The analysis in Kosovo shows that the insurance market gross written premiums have a positive linkage with the GDP growth of Kosovo. Even though the impact is small, it can increase with the potential growth of the insurance sector in Kosovo.

Keywords: Insurance Industry, Developing, Financial System, Economic Growth

Authors' individual contribution: The Author is responsible for all the contributions to the paper according to CRediT (Contributor Roles Taxonomy) standards.

Declaration of conflicting interests: The Author declares that there is no conflict of interest.

1. INTRODUCTION

This work carried out on the basis of primary and secondary data by relevant institutions of the insurance industry, will be an asset for readers who want to know more about the development and importance of this market in developed countries with special emphasis on Kosovo. Because there is

no research in this direction, except for similar research that the author has published, but in contrast, there are more factors, data, analysis, and the final result in the percentage of the impact of the insurance market on the financial system of the country. Conditionally, the impact it has on the country's economic growth can be deduced from these data. This is not the last work in this direction,

the interest is to follow this market along the way, its development and growth in the country (Kosovo). It also will be important work for governance, policies, or practical perspectives if it is to be considered and it will be necessary to constantly study this segment to know where it is reaching and what needs to be constantly changed to be in step with developed countries. Because in those countries we see from the literature that the insurance market has a great impact on the financial system and economic growth of the country. So, this study aims to highlight important factors of insurance companies' activity and their role in the development of the country's economic and financial systems. Based on daily life and research conducted by various authors, it is understood that a large number of individuals bought different insurance products, but there is an even larger number in developing countries that those products purchase does not pay due attention. The insurance industry in Kosovo has developed and to date has managed to create sufficient financial and professional capacity to provide various insurance services and coverage. Provides insurance coverage to protect citizens and their businesses from various events, such as natural disasters or insurance for life, health, property, responsibilities, various accidents, and others. There are no other academic studies that have analyzed the effect of insurance on economic growth in Kosovo to the point where this paper has realized tangible and factual results in this regard. There are some that will be mentioned below but that show only the progress of market development in general and that it would have an impact on the economy but without concrete parameters of measurement. While other countries have, and based on them, we note that in terms of the direct effect of insurance on the development of the financial market, further academic studies and explorations are required. However, based on studies in Kosovo and compared to studies of other countries, there are challenges ahead, which Kosovo needs to overcome in order to achieve services of higher quality, to achieve European standards, despite the achievements that are evidenced again, there is a need for further expansion of the offers of insurance policies and products, methods and management. The impact and effect that the insurance industry has on the financial market were researched taking into account the functioning of the insurance system as a whole and its specific segments, the role of the insurance system in mobilizing savings and effective competition, as well as regulatory and supervisory instruments. Despite the years, the flaw that is seen in Kosovo, from the beginning of the operation of insurance companies until today, which is 20 years of work, development, transformation, etc., the market is still dominated by a large number of uninsured vehicles and a low number of other types of insurance that are not offered but that do not encourage citizens to buy. Based on research, it turns out that the economic level of the country also affects this aspect. The findings of this research have shown a positive effect on the awareness of companies to do marketing and to inform the population about the importance of these products in general but especially to increase the number of purchases of voluntary insurance policies: life insurance, health, and so on. Regarding research papers for the

insurance sector in general, Arena (2008) claims that the insurance industry drives economic growth by enabling more efficient management of risks and domestic savings. Arena (2008) adds that "how life and non-life insurance premiums have a positive and significant effect on economic growth" (p. 398). Also, Arena (2008) adds that non-life insurance affects economic growth in high-income and developing countries, but life insurance would have a greater impact because based on research that life insurance is in growth only in high-income countries. Other authors, such as Haiss and Sümegi (2008), have analyzed two impacts of the insurance industry in several countries in Europe: the impact of premiums on GDP growth and the impact of insurance investments. Based on these parameters, they measure the impact/role of the insurance industry in the growth of the financial market. Haiss and Sümegi (2008) conducted their analysis based on panel data from 29 European countries from 1992 to 2005. Evidence from 15 European Union (EU) countries suggests that the life insurance industry has a positive impact on the growth of GDP. While the greatest impact on securing responsibility came from the new EU member states from Central and Eastern Europe, as countries that are developed but still have room for development in this segment of the economy. Cristea, Marcu, and Cârștina (2014) have examined the insurance industry in Romania by analyzing the insurance industry data collected for 16 years and comparing it with other international markets. The study focuses on the impact of insurance businesses on two types of coverage, both life insurance and non-life insurance, on economic growth. The results of the analysis showed that economically developed countries have a greater impact where the probability that the share of insurance to GDP of those countries turns out to be higher than 10%, while in some European countries it is even higher (Cristea et al., 2014). The insurance companies just like other institutional investors may not only help to improve the allocation of capital but also to further strengthen their investments through enhanced surveillance (Masci, Tejerina, & Webb, 2007). According to the above research and the data we have posted, insurance companies have large inflows and monetary reserves, which can be partially invested in less liquid instruments, such as bonds and shares. To study this phenomenon, we have used qualitative and quantitative research methods. Where to reach the goal we have used the existing literature while for the empirical analysis we have used data from national and international sources. Some of the relevant institutions are the Central Bank of Kosovo (*Banka Qendrore e Republikës së Kosovës*, BQK), Kosovo insurance companies, the Kosovo Insurance Bureau, the Kosovo Insurance Association, the Bureau Council, and the International Association of Insurance Supervisors.

The remainder of this paper is structured as follows. Section 2 is a review of the relevant literature. It covers the development of the insurance industry in several countries. This section brings together materials from different authors and actors in the financial sectors, including perspectives from different scholars. Section 3 presents the history of the insurance industry in Kosovo, and presents some comparisons with the insurance sector of neighboring countries such as Albania, Northern

Macedonia, and Montenegro. Section 4 presents the methodology used to achieve the objectives of this study and gives a detailed description of each step. Section 5 analyses the methodology that has been used to conduct empirical research on the insurance industry, and includes the results of the study and discussions. The last section includes conclusions and gives some recommendations.

2. LITERATURE REVIEW

The insurance industry has been reviewed by many authors through many studies because it has been observed that it is important for the development of any economy nowadays. An overview of several studies about the insurance industry and financial markets in developed countries has shown that the insurance industry impacts positively the economic growth. A study that has shown the importance of this type of research for the last ten years is the impact of the insurance industry on economic growth, conducted by Arena (2008), where this study tests the relationship between insurance activity and economic growth. Arena (2008, p. 921) states that for dynamic models in 55 countries for the period 1976-2004, it has been found strong evidence supporting the link between the insurance industry and the financial sector, using the generalized method of moments (GMM). Arena (2008) states that the insurance industry pushes economic growth by enabling the management of domestic savings and more efficient risk management. Arena (2008, p. 398) adds that both types of insurance, life insurance premiums, and non-life insurance, have a positive effect on economic growth. Further, Arena (2008) adds that life insurance affects growth only in high-income countries, while non-life insurance affects growth in both high-income and developing countries. Other research on this phenomenon is available in developed countries, for example, based on two types of effects of insurance markets on the economy: the impact of insurance investments and premiums on GDP growth in Europe has been studied by the authors Haiss and Sümegi (2008). The authors tried to find the role of 29 insurance markets in economic growth. Haiss and Sümegi (2008) made the analysis by reviewing panel data from 29 European countries from 1992 to 2005. Where, from 15 EU countries, evidence suggests that the life insurance industry has a positive impact on GDP growth, with the greatest impact on liability insurance coming from the new EU member states in Central and Eastern Europe (Haiss & Sümegi, 2008). Haiss and Sümegi (2008, p. 405) add that the insurance sector can help economic growth in several ways. One of the most important is risk transfer, which is realized by containing risk for other economic agents leading to reducing volatility and increasing economic activity, increasing the volume of investments, stabilizing the flow of income, and expanding capital markets. Therefore, Haiss and Sümegi (2008) find that the insurance industry in all observed countries has a positive influence on the economy, though at a different magnitude. Further, Haiss and Sümegi (2008) argue that the insurance sector needs to be paid more attention by financial sector analysis and macroeconomic policy. Cristea et al. (2014) have examined the insurance industry in the state of Romania, this group of authors has analyzed the data of the insurance industry collected for

16 years and compared it with other international markets, i.e., with other countries. The study focused on the impact of insurance businesses or insurance companies mainly with life and non-life insurance policies on economic growth. The results of the analysis showed that economic growth is higher in all those countries that have better economies than developing countries, up to 10% observed the impact of the insurance industry on GDP but in developed countries is believed to be even higher (Cristea et al., 2014). Further, Cristea et al. (2014, p. 323) add that the greater influence of the life insurance industry is shown between the correlation obtained of the GDP per capita and the insurance share in GDP than that of the non-life insurance. This is a very difficult thing to attain in our country because non-life insurance predominates. Cristea et al. (2014) conclude that the Romanian citizen's potential for insurance is shaped by their society, income, education, culture, and way of life; therefore, the life insurance sector is yet to be fully developed. The study conducted by Kaushal and Ghosh (2017), investigates the relationship between insurance, banking, and economic growth in India during the post-liberalized period. Kaushal and Ghosh (2017) claim that the banking sector development does not positively affect either economic growth or insurance development. However, Kaushal and Ghosh (2017) find that the insurance industry plays a crucial role in driving economic growth and in positively influencing the banking sector development. As Kaushal and Ghosh (2017, p. 2202) further add, the insurance industry has an essential and very important role in the financial system of a country, which is later channeled into economic growth. Another point of view from some authors with recent writings on insurance focuses on health insurance, perhaps the impact of the pandemic has made us realize even more the importance of insurance in all areas but mostly in health and life. The main contribution of the paper by Wang, Yang, and Chen (2022) is that it provides direct evidence that the directors or leaders of companies in relation to the board of directors have a special influence on the insurance market. Considering this research and based on the survey made with the managers of insurance companies in Kosovo, it is related that the company's performance, good managerial level, and marketing directly increase the momentum and indirectly increase the impact of this sector in the system financial. Domurat, Menashe, and Yin (2021) made extensive research in California by distributing mail information to 87,394 households to study the existence of economically significant behavioral frictions in health care registration. Making all this cost cheaper and with a greater effect on the awareness of the population, where a positive effect has had more on those families who have lower incomes, because the initial registration was done as a subsidy. Domurat et al. (2021) examine how these interventions affect enrollment and the average market risk due to the selection of marginal respondents to treatment. These results suggest that frictions may partly explain the low growth of insurance in the market and that interventions that reduce them may improve the market record and rate risk. Furthermore, the research of Ho and Hsu (2021) is different because they have been able to do something new so that developing countries can afford to buy health

insurance or the so-called “traditional authors”, given that prices are expensive for most of the population. According to the authors, the supply of microinsurance products will increase competition between micro and traditional insurance products and will reduce the market demand for traditional insurance. Thus, revenue and efficiency from traditional insurers’ premiums will decrease if the price of microinsurance is adjusted at marginal cost. Of all the above, it is much more important to try to prevent or manage risk, because all companies that provide insurance services must anticipate the potential risk from the policyholders. Also, those who are considering whether to perform any of the voluntary insurances should take into account how important it is to have insurance and how much insurance policies protect or cover possible damages coming from potential risks.

The following research hypotheses have been formulated for the study:

H1₀: The insurance industry positively affects the financial markets.

From all reviewed literature and from the practice, it could be concluded that insurance companies are among the largest investors, providing long-term capital to governments and industry in general, which is their contribution to the financial markets development. The insurance industry plays a crucial role in driving economic growth by supporting financial markets. Therefore, we could expect a positive impact of the insurance market on the development of the financial market, which in the case of Kosovo, as an emerging economy, could be a small impact. Kosovo’s insurance sector positively influences the banking sector development because they keep a large portion of the assets at the banks, as well as the Government securities market to some extent where they also invest a portion of their assets.

H2₀: Macroeconomic factors are important for the developments in the insurance industry.

According to the results of the research they have done more like a kind of review of the existing literature, it turns out that the economic development of the country, the increase in wages or income of the population, the reduction of unemployment, and at the same time, the marketing of the insurance industry itself would positively affect the well-being of the citizens and consequently they would develop one another (the financial system — the insurance system and so on).

3. DYNAMIC ANALYSIS OF THE INSURANCE INDUSTRY IN KOSOVO

In the following, key figures obtained from the annual reports of the Central Bank of Kosovo (CBK) show the performance and the stage of the insurance industry in the country over years. In BQK (2014), it is stated that there are different types of insurance that are applied on the territory of Kosovo. Everyone can be insured for different possible risks almost as in any other developed country, at a price defined by

the market and the companies operating in the country. Only the four most important types of insurance will be mentioned:

1) Life insurance policies and the type of risk covered by this insurance is early death;

2) Motor liability insurance and the type of risk covered by this insurance is accidents or thefts;

3) Property insurance and the type of risk covered by this insurance is a fire or other property damage;

4) Accidents and health insurance and the type of risk covered by this insurance is personal illnesses and accidents.

It is important to note that this sector is growing since the beginning of the operation, but there has been a significant increase in growth since 2012. In 2012, the total assets of the sector increased by 1.3%, and they continued to grow slightly in 2013, when the total assets of insurance companies operating in the country reached the value of 132 million euros, with an annual increase of 1.4%. The insurance sector during 2013 was characterized by a net loss of 337 thousand euros, which is significantly lower compared to the previous year when this sector had recorded losses of 3.1 million euros (BQK, 2013). Despite that, it was still obvious that the insurance sector remained very small in terms of assets and contribution to the financial system. At the end of 2013, the insurance sector was represented by only 3.2% of the total assets of the Kosovo financial system (BQK, 2014). It is also worth mentioning that the insurance sector in Kosovo has developed more in terms of compulsory insurance or vehicle insurance. It is known that other insurance policies are available as in any other country, i.e., there is a variety of products from insurance companies, however, the demand for these other types of “life” or voluntary insurance is low. Now, companies have started to focus more on marketing and customer attraction for voluntary insurance. People in the country will be known to be self-aware and should consider necessary insurance against other types of risk, such as illness or death, physical damage to property, and many other risks because if they are affected by an adverse event in any of these areas, they will have significant damages and greater financial losses. Since Kosovo is a developing country, it is quite normal that the insurance industry is in the process of developing, as well. At the end of the year 2018, insurance industry activity in Kosovo slightly improved, which also continued in the first half of 2019, while in the second half of the year 2019, it worsened. Furthermore, the level of density (written premiums per capita) according to data from the CBK, has increased to 55.2 euros in 2019 from 51.3 euros in 2018. However, this level was still low compared to the countries of the region, not to mention Europe. Given that year 2020 was really affected by the effect of the COVID-19 pandemic and restrictive measures of movement and other activities, written premiums declined during this year.

Table 1. Gross written premiums in Kosovo

Year	GWP (mln€)	Annual growth (%)	GWP as a percent of GDP (%)	GWP life insurance (mln€)	GWP life insurance annual growth (%)	GWP life insurance as a percent of GDP (%)	GWP non-life insurance (mln€)	GWP non-life insurance annual growth (%)	GWP non-life insurance as a percent of GDP (%)
2015	79.99	-2.6%	1.38%	2.72	11.1%	0.05%	77.27	-3.0%	1.37%
2016	83.51	4.4%	1.38%	2.62	-3.7%	0.04%	80.89	4.7%	1.35%
2017	86.73	3.9%	1.37%	2.53	-3.4%	0.04%	84.19	4.1%	1.33%
2018	92.07	6.2%	1.38%	2.95	16.6%	0.04%	89.12	5.8%	1.36%
2019	99.19	7.7%	1.42%	3.46	17.0%	0.05%	95.73	7.4%	1.37%

The level of penetration (intermediation) of the insurance sector in Kosovo (defined as gross written premiums as a percentage of GDP) penetration continues to remain at a relatively low level of about 1.4% over the whole period taken into consideration in this study (2015-2019), despite an increasing annual growth rate from 2015 (-2.6%) to 2019 (7.7%).

Gross written premiums in non-life insurance account for the largest share, of about 1.4% of GDP on average. In 2016 and 2017, there is a slight increase in these premiums, to be followed by a pick-up in 2019, with an annual growth rate of 17%. In contrast to the non-life insurance gross written premiums (GWP), the life-insurance ones register a considerable annual growth rate in the years 2018-2019, with an annual growth rate of 16.8%. As a percent of GDP, life-insurance GWP account for about 0.1%, on average over the period 2015-2019.

GDP and life-insurance GWP account for about 0.1% on average over the period 2015-2019.

3.1. Comparative analysis of the insurance sector by countries

The common meaning of insurance in different countries is that insurance is a contract, represented by a policy, in which an individual or a business unit receives financial protection or reimbursement for possible future losses. This subsection will cover a comparative analysis of Europe and peer countries from the region and their insurance sector.

The insurance industry in European countries

This subsection gives an overview of the European insurance industry. There are a number of different types of insurance policies available that are almost the same in all European countries. Having easy access now also through technology systems, every business or individual can find through the internet an insurance company that offers services tailored to their specific requests. For every country taken into consideration in this study, we can mention that in general, the insurance industry consists of two main segments: life insurance and non-life insurance, with subsegments within each of them. In the case of a life insurance contract, the beneficiary will receive a payment in the event of the insurer's death or final illness, etc., while non-life insurance covers a number of other areas of activity, including car insurance, accident insurance, property insurance, and homeowner insurance.

Based on the latest data on the European insurance industry, significant changes can be observed in the value of specific market segments. Gross written premiums of European life insurance companies in 2018 amounted to 764 billion euros, registering an increase of 45.75 billion euros compared to a year earlier. In the non-market life

segment, premiums amounted to approximately 407 billion euros, which was slightly more than half the value of life premiums, in 2018 (almost 704 billion euros, were paid into life insurance benefits in Europe). The United Kingdom was the main recipient country, recording the value of life benefits equal to 224.1 billion euros. In the non-life segment, the highest value of claims was paid in Germany with 81 million euros in 2017 (Rudden, 2022).

Based on the same data sources, it is said that insurance companies that provided better customer experience and care grew faster and gained more reputation by earning a higher income. Some of the most well-known names of European insurance companies in 2019 were in Western European countries, such as "Allianz Company" in Germany, and "Axa" in France. There are also many new companies that appear in the market and are successful, but among the biggest and most profitable, these were chosen. Those insurance companies that focus on the use of technology and innovation within the insurance industry are referred to as insurance technologies and are expected to quickly and successfully develop. For the last ten years (from 2010 to 2020), there were 266 new insurance companies established in Europe, with the United Kingdom, Germany, and France accounting for 178 of these companies. Therefore, the European insurance industry is of almost equal importance to the financial system because it has a high impact on the development and economic growth of Europe (Rudden, 2022).

The global financial crisis is considered by many economists to be the worst crisis since the Great Depression in the 1930s. It started in the US in 2007 with a crisis in the mortgage market and developed into an international financial crisis. The global financial crisis indirectly affected the insurance sector via its impact on policyholders, banks, capital markets, and supervisory bodies. The direct impact of the crisis is manifested in investment losses, due to a drop in the market value of insurance company investments and also because of the failure of issuers of debt instruments (borrowers) to pay the principal and/or interest. The comparatively high exposure of insurance company assets to the impact of the financial crisis comes from their significant role in the money and capital markets of developed countries. The total market value of European insurance companies' investment portfolios dropped to 6,500 billion euros in 2008 from 7,200 billion euros in 2007.

From the data in the annual reports of the Albanian Financial Supervisory Authority, we can make a comparison of the volume of premiums among Central and Eastern European countries in 2018.

Table 2. The volume of premiums from Central and Eastern European countries (2018)

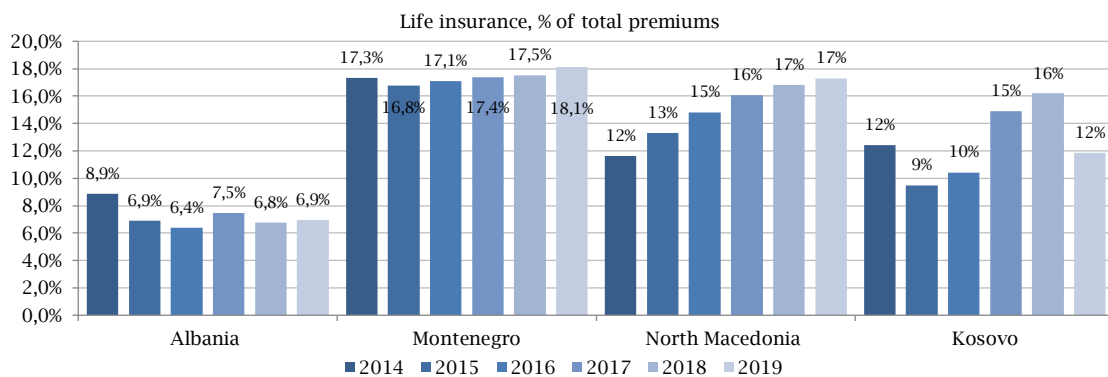
Central and Eastern European countries	GWP (mln€)	GWP/GDP (%)	GWP/person (euro)	Life insurance premium ratio to the market total
Bosnia and Herzegovina	365	2.16	104	20.10
Bulgaria	1,292	2.35	184	17.59
Estonia	552	2.15	419	17.30
Hungary	3,185	2.43	326	46.56
Kosovo	94	1.38	52	3.21
Croatia	1,329	2.59	324	31.80
Latvia	756	2.56	391	19.21
Lithuania	878	1.95	315	28.28
Montenegro	87	1.90	139	17.54
Macedonia	161	1.50	78	16.82
Poland	14,458	2.94	381	34.91
Czech Republic	6,027	2.95	569	36.27
Romania	2,174	1.07	111	20.70
Serbia	845	1.97	121	23.81
Albania	133	1.05	46	6.75
Slovakia	2,208	2.45	406	46.53
Slovenia	2,341	5.10	1,132	30.61
Total	36,885	2.15	306	33.56

Table 2 shows the volume of premiums from Central and Eastern European countries in 2018. The average GWP in the GDP ratio for Central and Eastern European countries for 2018 is 2.15%, with Slovenia showing the highest rate of 5.10%, while other countries that are above this average are Poland, Czech Republic, Croatia, Latvia, Slovakia, Hungary, Bulgaria while Estonia and Bosnia and Herzegovina are right on average. Montenegro, Serbia, North Macedonia, and Kosovo are mainly below average, with the lowest values recorded in Romania (1.07%) and Albania (1.05%). The average density of GWP per capita is 306 euros, with Slovenia recording the highest value of 1,132 euros per capita while Albania, Kosovo, and North Macedonia record the lowest values, with less than 100 euros per capita. The life insurance premium ratio to the total market average is 33.56%. Hungary, Slovakia, the Czech Republic, and Poland are above this average, while all other countries are below this average, with the lowest value recorded in Albania (6.75%) and Kosovo (3.21%).

3.2. Comparative analysis for the countries of the region

This subsection will cover a comparative analysis of countries from the region and their insurance sector. Figures 1 and 2 show the performance of the life

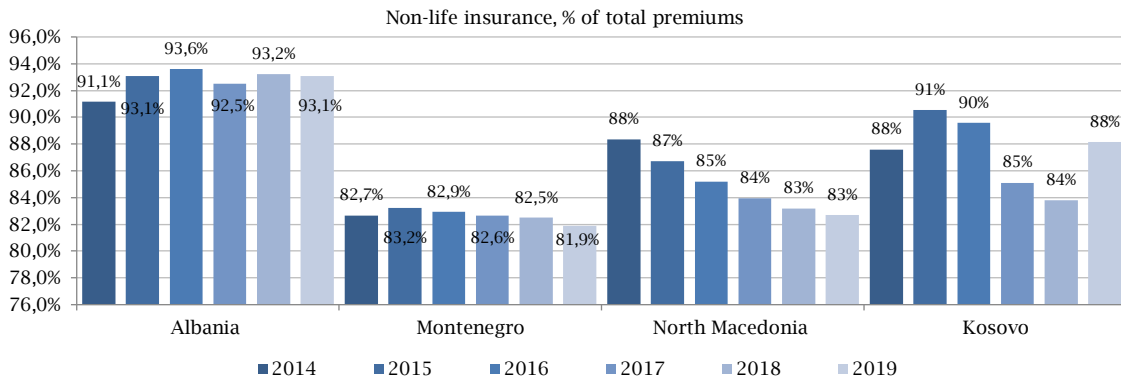
and non-life market insurance (expressed as a percentage of total premiums) in Kosovo and the other three countries of the region (Albania, Montenegro, and North Macedonia) over the period 2014-2019. With regard to the share of the life-insurance GWP to total premiums, Albania has the lowest share (on average about 7.2% over the period 2014-2019), while Montenegro has the highest share (around 17.4%). In the case of Albania, this share goes down from 8.9% in 2014 to 6.9% in 2019. In the case of Montenegro, the trend of the share of life insurance premiums to total premiums goes down slightly from 17.3% in 2014 to 16.8% in 2015 and then steadily increases to a level of 18.1%. While, in the case of Macedonia, there is a clear increasing trend each year, with the share of the life insurance premiums to total premiums increasing from 12% in 2014 to 17.3% in 2019. In the case of Kosovo, the trend is not very clear. There is a decrease in the share of life insurance premiums to total premiums from 12.4% in 2014 to 9.5% in 2015, to be followed by an increasing trend until 2018 (16.2%), and then to be followed again by a decline in 2019 (11.8%).

Figure 1. The life insurance industry in the region

In contrast, the GWP in the non-life insurance industry, expressed as a percentage of total premiums, shows an opposite picture, with Albania

recording the highest share (92.8%) and Montenegro recording the lowest share (82.6%).

Figure 2. The non-life insurance industry in the region



However, as a percentage of GDP, Montenegro over the years has total paid premiums of both life and non-life insurance, averaging 2%, followed by North Macedonia at 1.5%, Kosovo at 1.4%, and

Albania at 1.0%. It should be noted that these figures have been characterized by high deviations over the years compared to their historical averages (Figure 3).

Figure 3. Gross written premium/GDP (in %) Central and Eastern European countries (2018)

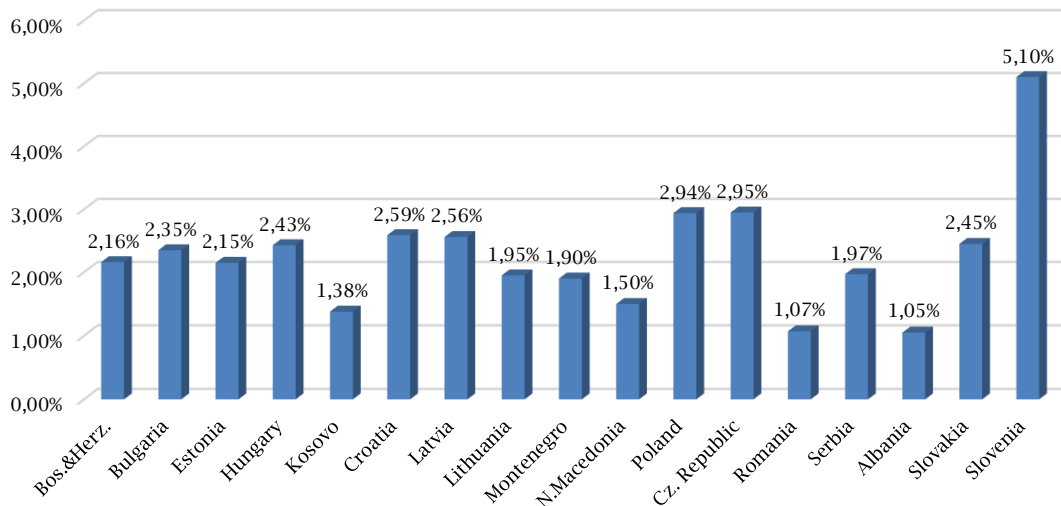


Figure 3 shows the share of gross average premium written to GDP in 17 Central and Eastern European countries for the year 2018, including also the 5 countries which are the focus of this study. The average share of GWP to GDP for all these countries is 2.15%, with Slovenia having the highest share of 5.10%, to be followed by other countries that are well above this overall average, such as Poland, Czech Republic, Croatia, Latvia, Slovakia, and Hungary. There are 3 countries that have a share of GWP to GDP very close to the overall average, namely: Bulgaria, Estonia, and Bosnia and Herzegovina. While countries such as Montenegro, Serbia, North Macedonia, and Kosovo are mainly below the 2.15% average, with the lowest value being recorded in Romania (1.07% of GDP) and Albania (1.05% of GDP), to be followed by Kosovo (1.38% of GDP), and lastly by North Macedonia (1.50% of GDP). This comparison clearly shows that there is a need

for further development of the insurance industry in the countries of the region.

4. METHODS AND DATA

This research uses quantitative and qualitative research methods, which focus on collecting the opinions and thoughts of the participants about the subject of study. This type of research is carried out based on the philosophy of interpretivism (collecting opinions and writing the author's interpretation for them) and an inductive research approach that enabled the researcher to obtain in-depth data required for analysing the subject of study. Online or email questionnaires were the most appropriate means of collecting data, considering that the participants were located across different locations making it easier to reach them easily and conveniently.

The survey was specific for finance managers from all insurance companies. There were a total of twelve questions that were sent to everyone via email. Additionally, most of them were met directly for a short conversation about the responsibilities they have. These meetings took place in June 2019 at the headquarters of respective companies in Pristina (Kosovo). Financial executives were asked about company financial terms, revenue/profit, expenses, and product sales. In addition to concrete questions, they were asked to give their opinion as experts in the insurance industry on the current state of the sector and how they expect opportunities for positive change, and what actions they suggest should be taken. This opinion was asked of you because almost everyone was in the running and leading position in the insurance company for more than a decade.

Furthermore, secondary data were collected by the Central Bank of Kosovo and Insurance Companies, to a lesser extent by the Kosovo Insurance Association/Bureau, which will be used for empirical analysis. In addition to the literature and statistical data, the survey results provided an additional perspective for an in-depth analysis of the impact of economic growth on the insurance sector in Kosovo.

A research design can be described as the overall techniques that a researcher selects to integrate the various components of research in a logical and coherent manner, to ensure that the research problem is addressed effectively. There are two broad types of research designs which include qualitative and quantitative design. Each of these designs is divided into various research designs, which include descriptive, experimental, correlational, reviews, meta-analytic, cohort, cross-sectional, exploratory, ethnography, and case studies (Saunders, Lewis, Thornhill, & Bristow, 2015). This study, as mentioned above, aims to identify the connection of the insurance industry with the financial markets, and additionally estimate the macroeconomic and financial system determinants affecting the insurance industry development. According to Brown (2006), the methodology is defined as the philosophical framework within which the research is conducted or the foundation upon which the research is based. This study aims to analyze the insurance system in Kosovo, the number of companies that operate and the services they provide, and the impact they have as an investment in the total financial system, which consequently is seen as an impact on the economic growth of the country. To study this phenomenon, quantitative and qualitative research designs were used. The quantitative research design will be mainly used for the first and second hypotheses (data analysis with statistical methods). Surveys are also flexible to use and can be administered through many means such as social media, online, paper, email, telephone, and mobile surveys. In this way, it is easier for the researcher to collect data from respondents who

cannot be reached for face-to-face surveys (Saunders et al., 2015). Lastly, they are dependable and the provision answers are more valid and candid, especially if the respondents are honest enough with the answers they provide to the researcher.

To achieve the survey process, the researcher will follow the following steps:

- The first step is to formulate the survey by defining the problem being studied, which in this case involves the issue of how the insurance industry functions. This stage also involves identifying the population, and the variables to be used. The significance of the questions is that they provide a framework and a guide on what is needed to be done or achieved by this research (Shelley, 2001). They help the researcher find the right techniques to obtain research objectives.

- The second step is to identify the model for collecting data, which in this case emailed questionnaires are administered (Shelley, 2001).

- The third step is to identify the most appropriate sampling plan for determining the sample size. In this case, the most appropriate sampling plan is using the convenience sampling method, since it is easy to be administered and it allows the researcher to determine the individuals, who should be included in the sample (Shelley, 2001).

- The fourth stage is to develop questionnaires, which use closed-ended questions, considering this is a qualitative study requiring numerical data (Shelley, 2001).

- The fifth stage is identifying the means to administer the questionnaires. In this study, the questionnaires are administered through emails (Shelley, 2001).

- The sixth stage is to carry out a pilot study to evaluate the reliability and validity of the questionnaires and the sample in the study (Shelley, 2001).

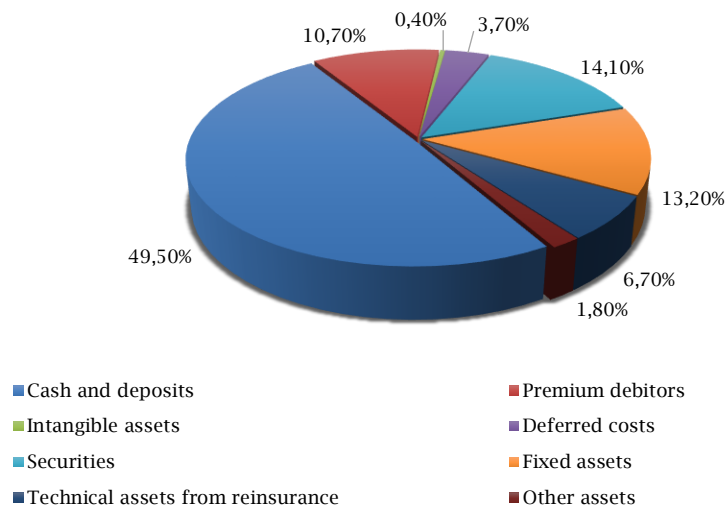
- The seventh stage is to execute the survey, which in this research involves administering the questionnaires through emails and receiving the respondents' responses through emails (Shelley, 2001).

- The last stage is to analyse the data collected through descriptive and inferential statistics (Fink, 2006).

5. RESULTS

5.1. Analysis of the first hypothesis

In analysing this research issue, we will make an overview of the insurance assets structure. The insurance companies offer specific financial products and services, for the benefit of the overall financial system and the economy. They participate in the domestic financial markets and they are interrelated with other financial institutions, therefore are important players in the financial system.

Figure 4. Assets structure of the insurance sector

Source: CBK (2019, <https://bqk-kos.org/mbikeqyrja-financiare-2/mbikeqyrja-e-sigurimeve/tarifat-dhe-buletini-statistikor/arkiva/>).

This figure on the asset structure suggests that the assets of the insurance companies contain a high percentage of highly liquid assets. Within the assets, investments in securities of the Government of Kosovo and receivables from the insured were characterized by a significant increase, whereas the deposits held in commercial banks decreased. Cash and deposits held with commercial banks and the CBK remain the dominant category in the balance sheet of the insurance sector with a share of 49.5%. The investment structure of insurance companies, which continues to be conservative, consists of investments in securities of the Government of Kosovo, which increased to 14.1% of the total assets in December 2019 from 13.2% in December 2018. This is pointing to the role of the insurance sector in financial sector development, more specifically the support to the government securities market. Based on Law No.03/L-209, Article 5, categories of assets are allowed to cover technical and mathematical provisions, the insurance companies can make an investment with some rules. At the special request of insurers and with the prior approval of the CBK, insurers may invest in the instruments such as treasury bills, bonds, and other financial instruments of the capital market,

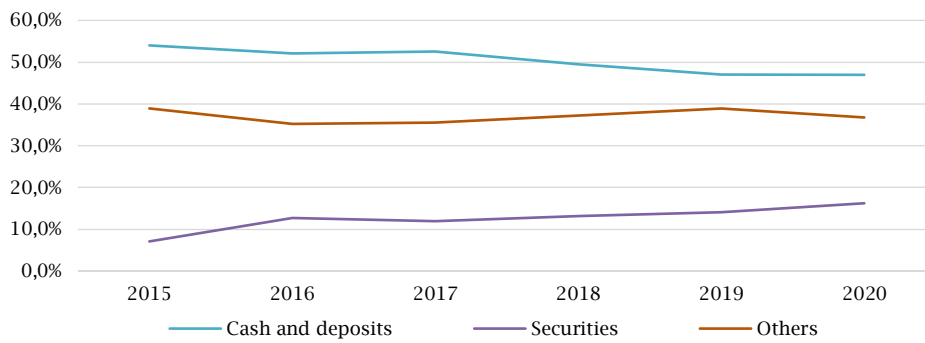
issued by the Government of the Republic of Kosovo with a maturity of no more than one year for non-life insurers, while without limitation for life insurers. Also, investments are allowed in other instruments issued and guaranteed by the central banks and governments of the EU member states, which must have a credit rating not lower than BBB by Standard & Poor's or equivalent in this category by Fitch and Moody's, or their equivalent classified by other credit rating agencies recognized by the CBK. There are also categories of the variable capital investment, with specifics on how to conduct investments. The variable capital of insurers can be invested as follows: deposits in commercial banks, licensed by the CBK, not more than 30% of variable capital in a trusted account in a commercial bank, and securities issued by the Government of the Republic of Kosovo, not more than 70% of variable capital requirements with a maturity of up to one year.

As shown in the table and graph below, cash and deposits have decreased, as a share of total assets, during the period 2015-2020 from 54% to 47%. On the other hand, securities have marked an increase which has almost doubled over the same period, from 7.1% to 16.2%.

Table 3. The percentage asset allocation of the insurance industry

Year	Cash and deposits	Securities	Others
2015	54.0%	7.1%	38.9%
2016	52.1%	12.7%	35.2%
2017	52.6%	11.9%	35.5%
2018	49.5%	13.2%	37.3%
2019	47.1%	14.1%	38.9%
2020	47.0%	16.2%	36.8%

Figure 5. Cash and deposits, securities, as % of the total assets (2015–2020)

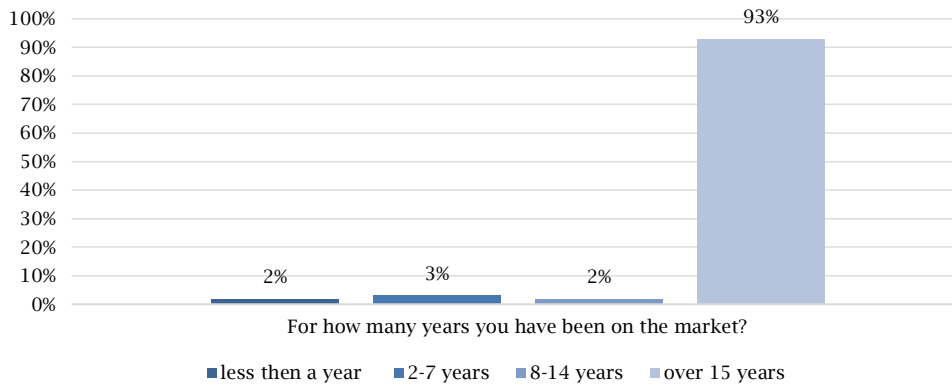


5.2. Analysis for the second hypothesis (Results of the survey)

Based on the literature review, various studies find robust evidence of the relationship between the insurance industry and economic growth. Arena (2008) claims that the insurance industry drives economic growth by enabling more efficient management of risks and domestic savings. Various

research studies show that in those countries, characterized by higher economic development, the share of insurance activity to the GDP of those countries is higher than 10%, while in some European countries, this share is even higher (Cristea et al., 2014). A summary of all responses of financial directors of insurance companies is presented in the figures below (see Appendix for the list of the questions).

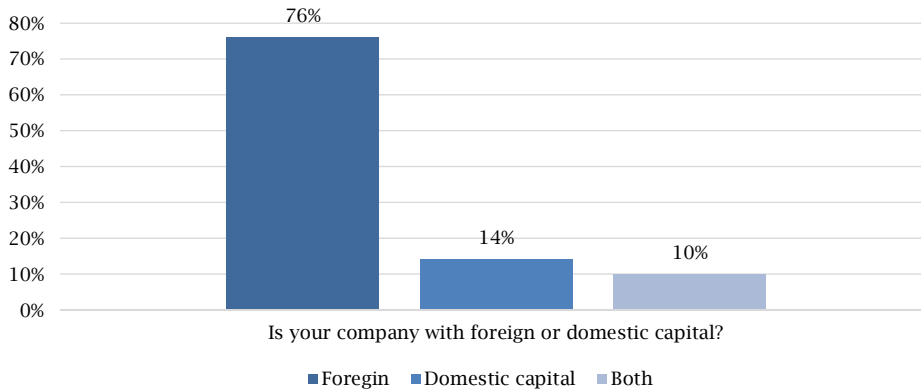
Figure 6. Responses of financial directors (Question 1)



With regard to the survey question “For how many years have you been on the market?”, the majority of respondents, 93% of them, report that they have been on the market for over 15 years. Around 2% of them state that they have been on

the market for 8–14 years; 3% claim that they have been on the market for 2–7 years; and 2% of them conclude that they have been on the market for less than a year.

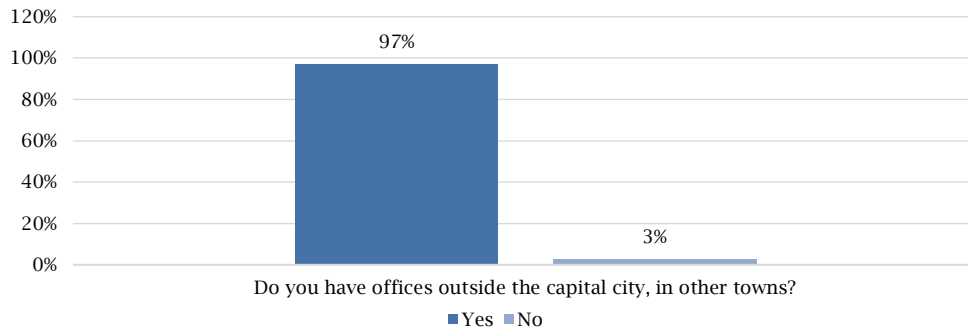
Figure 7. Responses of financial directors (Question 2)



The second question was about ownership of capital. It attempted to find out the difference in the company capital structure, and whether it is comprised of foreign or domestic capital. Thus, based on Figure 7 it is understood that the vast majority (about 76% of respondents) report that their company has foreign capital; 14% of them report that they have domestic capital, and 10% of

them declared that in the beginning they started with domestic capital and after a while continued with foreign capital. So, out of 13 companies, 4 responded that they operated with domestic capital, 1 company declared that in the beginning they started with domestic capital and after a while continued with foreign capital and 8 other companies are operating with foreign capital.

Figure 8. Responses of financial directors (Question 3)

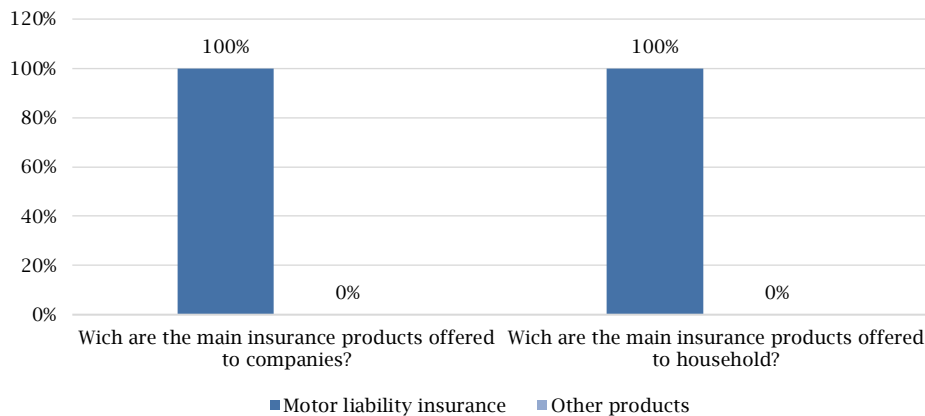


The third question of the survey: “Do you have offices outside the capital city, in other towns?” seeks to find out if the company has offices outside the capital city, in other towns. The answer was similar across the board because they are operating all over the country. This was perceived to be a fundamental market development strategy because they take their services nearer to the population. In terms of percentage, 97% of respondents report having offices in other cities, and 3% report not

having them.

The fourth question is about the number of employees working in their company. All insurance companies have between 100 and 160 employees, and it seems to be a sufficient number of employees. If we look at the aggregate number of employees working in 13 companies that now operate in the market, we can say that they contribute to the well-being of those families whose members work in this sector.

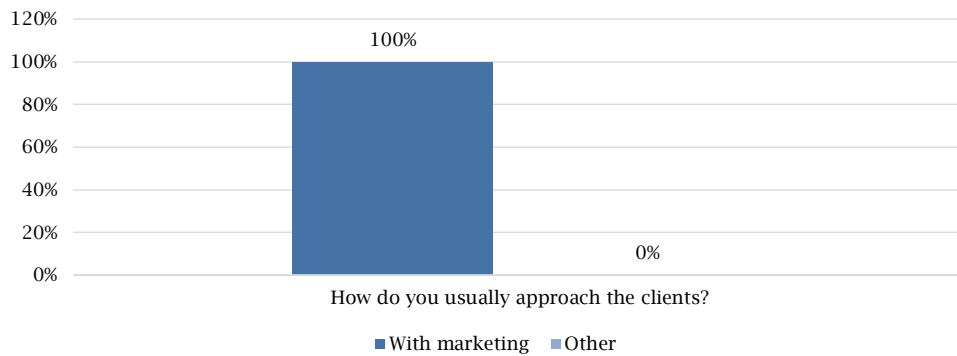
Figure 9. Responses of financial directors (Questions 5 and 6)



The fifth question aims to obtain information about the main insurance products that the company offers. With regard to the first variable “Which are the main insurance products offered to companies?”, 100% of respondents state that they offer motor liability insurance. Similarly, with regard to the second variable “Which are the main insurance products offered to a household?”, 100% of respondents claim to be motor liability insurance. It is obvious from the responses that the main insurance products for both companies and households are compulsory motor liability insurance. It has been aforementioned that over the last

decade, the insurance industry in Kosovo has achieved and approved a lot of similar products similar to other countries. However, its development is not at the right level, with compulsory insurance policies, being more, and voluntary insurance policies being less popular. In Kosovo, voluntary products need more time to develop. The high unemployment rate in the country is considered to be one of the main reasons for the lack of development of voluntary insurance. Another reason given by obtained from the questionnaire is the lack of information and promotion provided by insurance companies.

Figure 10. Responses of financial directors (Question 7)

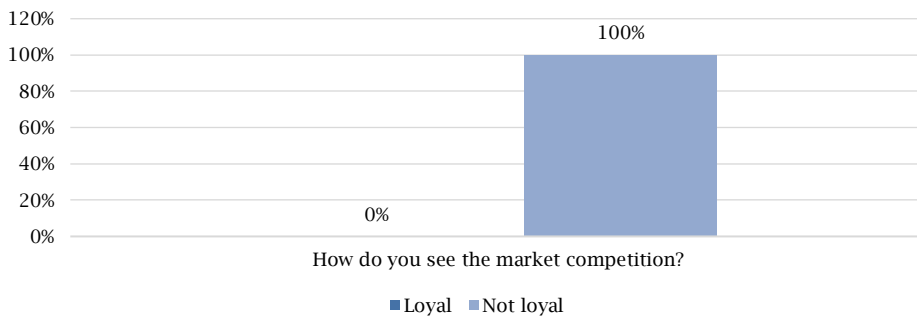


The survey question “How do you usually approach clients?” aims at identifying if the companies approach the clients and if they have a marketing campaign for their products, which is presented in Figure 10. Based on the answers obtained, we understand that 100% of respondents state that they usually approach their clients through marketing.

With regard to the question “Do you have a marketing campaign for your products?”, 100% of

respondents responded with the rare option. This means that out of 13 companies, 2 responded that they had not done any marketing for a long time; 6 responded that they do marketing from time to time; while the rest of the companies are actively running marketing campaigns. All insurance companies should market their products and educate the population about the importance of the different types of insurance policies in a persistent way.

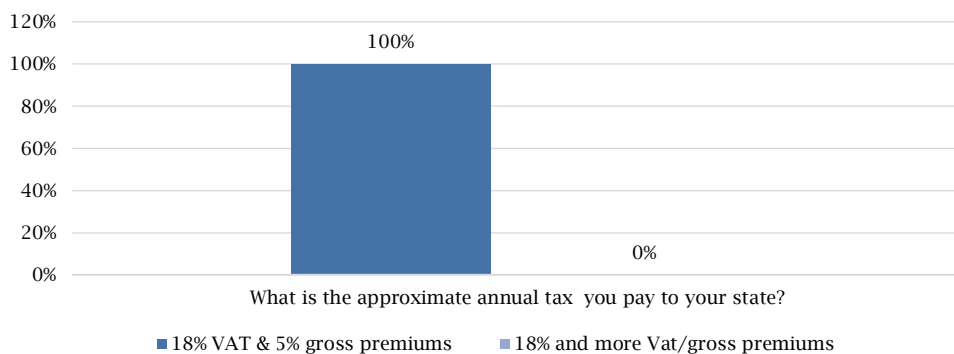
Figure 11. Responses of financial directors (Question 9)



With regard to the question “How do you see the market competition?”, 100% of respondents state that the competition is not loyal. So, a large part of the markets in terms of racing in a way they cheat, lowering the products of the other, inventing for the products the words which are not real, just to attract customers to them. It is assumed that certain groups

of leaders or directors of companies cooperate, in order to seize the market for themselves and there is no trust and fair cooperation among all. This may seem absurd but in my opinion it is normal to act in the markets and try to work better than competitors but not to cheat in media or campaign just to attract customers.

Figure 12. Responses of financial directors (Question 10)



The tenth question was: "What is the approximate annual tax fee you pay to your state?". The dominant response is that the taxes they pay to the state are 18% VAT and 5% taxes on gross premiums, based on the law. For example, on average for the companies, the annual handling taxes and accumulated VAT reaches the amount of 1.5-2.0 million euro.

The last two questions are about prospects of the market development and the best action that, as per the respondents' opinion, would be good to undertake for further market development. All the financial directors of insurance companies think that the applicable law should be respected and implemented and then this law should be advanced in accordance with EU legislation. It is worth mentioning that this questionnaire was made in the first quarter of 2019 which means that the taxes they pay to the state were 18% VAT plus 5% taxes on gross premiums.

5.3. Discussion

One of the implications of this study is that it provides insights and understanding of what the insurance sector in Kosovo looks like and what impact it has on the financial industry and the underlying perceived risks. Through these results, we provide a general knowledge of companies' reputation or popularity and the position that an insurance company has in the market, and how it affects the entire financial sector of a country. Based on the main findings of this study it is evident that there is some significant direct relationship between the insurance industry and the financial sector. Since their existence, there is a separate insurance segment in the financial system meaning broader offers, first offers of life insurance, expected positive effects from those on long-run savings, keeping deposits in the banks, investing in Government securities, and supporting this market. Also from the hypotheses, the insurance companies offer specific financial products and services, for the benefit of the overall financial system and the economy. They participate in the domestic financial markets and they are interrelated with other financial institutions, therefore are important players in the financial system.

From the survey, it was clear that the insurance industry in Kosovo is not mature or sufficiently sustainable. Many of the players have been in the market for more than 15 years. A large percentage of the insurance service providers are funded by foreign capital, which may limit them from undertaking personalised business approaches. In these cases, there is the risk of the organizations in the country not producing the products and services that the local communities are largely interested in. In addition, the insurance sector in the country is largely dominated by non-life insurance service providers. This presents a challenge, as it indicates the difficulty of the industry to deliver on its ideal mandate. A mature and well-developed insurance industry would have sufficient representation in all areas and sectors of the industry. The low development is also evident in the wide application of the basic type of insurance that is fully developed in the world, such as motor vehicle insurance. The industry has not developed or matured enough, in order to allow sufficient or high-

interest levels and to ensure that more people are motivated to purchase any insurance services that the industry provides. It is also evident that the industry's slow and low development is seen in the absence of a formal and developed marketing platform since many organizations do not have a formal marketing plan or approach.

6. CONCLUSION

The insurance industry's central role is to act as an agent to deal with the asymmetric information issues to improve the economic well-being, and therefore to promote economic growth indirectly. The insurance industry contributes to economic efficiency and promotes economic growth in several ways. First, it spreads the risk to an economy and reduces transaction costs. Second, it protects existing assets where insurers provide a more stable financial base, but also economic agents than insurance companies. Third, finally, insurance can be an alternative and additional financial support in case of economic losses caused, for example, by accidents, disasters, and bankruptcies. This knowledge can be very essential to companies in the financial sector as well as those in other sectors, as it provides some significant lessons and recommendations that most companies can use to reduce the uncertainties and doubts that prevent a customer from making purchases of their products and services. The results of the analysis carried out in this research paper are in line with our hypotheses, and it is also consistent with previous studies which study the impact of insurance on the economic growth of a country and especially of countries in transition. These results show the need to implement incentives for insurance development because the results of research conducted in developed countries suggest that insurance has a positive impact and has an important role in increasing their economic activity. It is essential that the relevant institutions advance techniques for risk management, implement institutional improvements to contribute to strengthening competition, enhance marketing efforts to increase citizens' awareness of new products, and create new distribution channels. Two crucial elements which need special attention are the development of bank insurance products and education with an insurance culture for young people by introducing insurance education in high schools and in universities. Based on the literature review and evidence on the positive relationship with the financial system development, developing countries such as Kosovo should develop policies, which aim to encourage insurance development. This is mainly on life insurance, which will allow insurance companies to mobilize significant stable resources to finance the economy through the purchase of financial assets. In every country of the world, the insurance industry plays a central role in the well-being of the economy. It is the guarantor of people's wealth and lives, public and state property, as well as financial institutions.

It is important to mention that Kosovo is not a member of the Green Card system for the time being, since according to the Article 4.2 of the Council of Bureaux Constitution a Bureau seeking such membership has to be the Bureau of a State which is internationally recognized and admitted as

a member of the United Nations. Motorists of Kosovar vehicles wishing to cross the borders and motorists of foreign vehicles wishing to enter Kosovo are requested to purchase border insurance. The national bureau cooperates on the basis of the internal regulations signed bilaterally between each of them. The absence of a Green Card in the Republic of Kosovo has presented the need for reaching a memorandum of understanding with neighbouring countries and beyond, so that compulsory motor vehicle liability insurance certificates for third-party claims and the damage handling procedures are recognized from both sides, i.e., the insurance companies of the respective states (Council of Bureaux of the Green Card). So far, the Republic of Kosovo has three memoranda of understanding with three neighbouring states: Memorandum of Understanding with the Republic of Albania, signed on 09 September 2002, between the CBK (former CBAK) and the Albanian Insurance Bureau based in Tirana; Memorandum of Understanding with the Republic of Macedonia, signed by the Kosovo Insurance Bureau and the National Insurance Bureau of Macedonia based in Skopje on 24 October 2012 in Ohrid, Macedonia. This Memorandum of Understanding (MOU) has renewed the Memorandum of Understanding signed between the CBK (former CBAK) and the National Insurance Bureau of Macedonia on 24 January 2003. The Memorandum of Understanding with the Republic of Serbia was signed in Brussels on the mutual recognition of vehicle insurance between the Republic of Kosovo and Serbia. It was signed between the Association of Serbian Insurers (ASI) and the Kosovo Insurance Bureau (KIB) on 23 June in Brussels, whereas a mitigating and guaranteeing party, it is signed by the European Insurance Bureau and the European Union. This Agreement entered into force on 12 August 2015. Based on the MOU with the Republic of Macedonia and Serbia, citizens of the Republic of Kosovo who travel to the Republic of Macedonia with their motor vehicles shall be equipped with special insurance known as "TPL Plus" (motor liability insurance plus) from the same insurance company where the TPL national insurance was obtained. Also, the citizens of the Republic of Macedonia and Serbian who travel to the Republic of Kosovo are required to possess the International Green Card for motor vehicles. While, in the case of the MOU of the Republic of Albania, the citizens of both countries can travel using only the local TPL insurance for their motor vehicles. In case the motor vehicle does not possess valid insurance that allows for access to the respective states, the same shall be required to secure border motor vehicle insurance at the entrance of the respective states. Through these MOU the parties have agreed to mutual recognition of motor vehicle liability insurance, damage claims handling and payments, compensation for damages, as well as the compensation fund (Kosovo Insurance Bureau, <https://www.cobx.org/>).

Undertaking a series of reforms by the government where insurance is considered essential for the state and the well-being of citizens is crucial. This includes instances such as insurance against natural disasters (mandatory law), agricultural insurance, insurance for students and pupils, insurance against accidents of security

workers and risk sectors, securing personal and commercial properties, and securing the wealth of the needy. These would have an enormous increase in insurance, with an overall positive effect on investors, the state budget, and the economy in general. Despite the problems mentioned above, the insurance industry has room for better development. However, major challenges await important projects in the future, such as regulatory change and the transition from Solvency I to Solvency II Directive. The main reason for such transition is that Solvency I requirements are not risk-sensitive and do not align capital requirements with insurers' risk profiles). According to the Solvency II Directive, "capital requirements are determined on the basis of a 99.5% value-at-risk measure over one year, meaning that enough capital must be held to cover the market-consistent losses that may occur over the next year with a confidence level of 99.5%, resulting from changes in market values of assets held" (European Commission, 2020). Another challenge is the adoption of IFRS 17 (International Financial Reporting Standards) in order "to standardise insurance accounting globally and to improve comparability and increase transparency" (European Commission, 2020). The third challenge is price liberalization to mandatory TPL insurance. The task of state institutions in the future is an integration of domestic security mechanisms into international mechanisms.

Through this paper we have seen closely what would be good to research further, as a primary suggestion is to do research on the relationship between the insurance industry and the impact on economic growth, in an even more detailed sectoral approach, being focused on categorizing each type of insurance and the impact of each, especially on the impact of having a sustainable growth. Kosovo, although with a poor level of insurance such as life insurance, health, property, etc., still had a continuous growth in this sector, in the studied period, and the regulatory framework, as well as decision makers, need continuous studies and based recommendations in serious facts. Further studies are needed to test the relationship between further progress in the financial services sectors and their relationship to economic growth.

The research will be greatly enabled by the limited players in the insurance space and subsector in Kosovo. Indeed, the limited players will be easier to interact with, with any potential information and data being subsequently collected and sufficiently analyzed. Similarly, the small size of the industry, in general, will be relatively easier to research, whether for a primary or secondary research effort. The research will be limited by a lack of elaboration or appropriate information on the interrelation of these different subsectors of the financial system. Limited time series for the insurance sector considering its relatively short history, is another limitation of the research. Another limitation includes the fact that the interviews and face-to-face meetings were started during a pandemic COVID-19 and this made direct communication impossible in some cases or even the time to plan the completion of all work was postponed.

REFERENCES

1. Arena, M. (2008). Does insurance industry activity promote economic growth? A cross-country study for industrialized and developing countries. *Journal of Risk and Insurance*, 75(4), 921–946. <https://doi.org/10.1111/j.1539-6975.2008.00291.x>
2. Banka Qendrore e Republikës së Kosovës (BQK). (2013). *The CBK Financial Statement* (For the third quarter 2013: Unaudited interim report). Retrieved from <https://bqk-kos.org/repository/docs/2013/FinancialStatementsCBKSeptember2013.pdf>
3. Banka Qendrore e Republikës së Kosovës (BQK). (2014). Çfarë është sigurimi? Banka Qëndrore e Republikës së Kosovës.
4. Banka Qendrore e Republikës së Kosovës (BQK). (2016). Regulation on investment of assets covering technical and mathematical provisions and investment of charter capital for insurers. Retrieved from <https://cutt.ly/ALqM4qr>
5. Brown, R. B. (2006). *Doing your dissertation in business and management: The reality of research and writing*. New York, NY: SAGE Publications.
6. Comité Européen des Assurances (CEA) & Towers Perrin. (2006). Solvency II introductory guide.
7. Cristea, M., Marcu, N., & Cârstina, S. (2014). The relationship between insurance and economic growth in Romania compared to the main results in Europe — A theoretical and empirical analysis. *Procedia Economics and Finance*, 8, 226–235. [https://doi.org/10.1016/S2212-5671\(14\)00085-9](https://doi.org/10.1016/S2212-5671(14)00085-9)
8. Domurat, R., Menashe, I., & Yin, W. (2021). The role of behavioral frictions in health insurance marketplace enrollment and risk: Evidence from a field experiment. *American Economic Review*, 111(5), 1549–1574. <https://doi.org/10.1257/aer.20190823>
9. European Central Bank (ECB). (2009). The importance of insurance companies for financial stability. *Financial Stability Review*, 160–168. Retrieved from <https://www.ecb.europa.eu/pub/pdf/fsr/art/ecb.fsrart200912en.05.pdf?d92c521966d4230d00f941821cb4e1cc>
10. European Commission. (2020). Solvency II (Directive 2009/138/EC) — As amended by Directive 2014/51/EU (“Omnibus II”) — replaces 14 existing directives commonly known as “Solvency I”. Retrieved from <http://data.europa.eu/eli/dir/2009/138/oj>
11. Fink, A. (2006). *How to conduct a survey: A step-by-step guide*. Thousand Oaks, CA: SAGE Publications.
12. Haiss, P., & Sumegi, K. (2006). The relationship of insurance and economic growth — A theoretical and empirical analysis. Paper presented at the *2006 EcoMod Conference, Hongkong*. Retrieved from <https://ecomod.net/sites/default/files/document-conference/ecomod2006/1454.pdf>
13. Haiss, P., & Sumegi, K. (2008). The relationship between insurance and economic growth in Europe: A theoretical and empirical analysis. *Empirica*, 35(4), 405–431. <https://doi.org/10.1007/s10663-008-9075-2>
14. Ho, S. J., & Hsu, H.-H. (2021). The effect of microinsurance on the insurance market: Evidence from Taiwan. *The Geneva Papers on Risk and Insurance — Issues and Practice*, 46(1), 130–145. <https://doi.org/10.1057/s41288-020-00175-6>
15. Insurance Supervision Agency of Montenegro. (2019). *Izveštaj o stanju na tržištu osiguranja u Crnoj Gori za 2019. godinu*. Retrieved from <https://cutt.ly/LKCmS0H>
16. Insurance Supervision Agency. (2020). *2019 annual report: Insurance market in the Republic of North Macedonia*. Retrieved from https://aso.mk/wp-content/uploads/2020/10/gipazar_2019_en_final.pdf
17. Kaushal, S., & Ghosh, A. (2017). Economic growth and the development of banking and insurance sector in the post-liberalized India: An empirical analysis. *International Journal of Social Economics*, 44(12), 2187–2207. <https://doi.org/10.1108/IJSE-04-2016-0121>
18. Kosovo Tax Administrator. (2020). Notice to taxpayers — Tax declaration by insurance companies.
19. Masci, P. L., Tejerina, L., & Webb, I. (2007). *Insurance market development in Latin America and the Caribbean* (Inter-American Development Bank Paper No. IFM-146). Retrieved from <https://publications.iadb.org/publications/english/document/Insurance-Market-Development-in-Latin-America-and-the-Caribbean.pdf>
20. Rudden, J. (2022, March 11). Total number of companies on the European insurance market as of 2019, by country. *Statista*. Retrieved from <https://www.statista.com/statistics/438318/insurance-sector-number-of-firms-europe-by-country/>
21. Rudden, J. (2022, March 22). Insurance industry in Europe — Statistics & facts. *Statista*. Retrieved from <https://www.statista.com/topics/3382/insurance-market-in-europe/>
22. Saunders, M. N. K., Lewis, P., Thornhill, A., & Bristow, A. (2015). Understanding research philosophy and approaches to theory development. In M. N. K. Saunders, P. Lewis, & A. Thornhill (Eds.), *Research methods for business students* (7th ed., pp. 122–161). Harlow, England: Pearson Education.
23. Shelley, M. C. (2001). How to do a survey (A 9-step process). Retrieved from <https://docplayer.net/20811679-How-to-do-a-survey-a-9-step-process-mack-c-shelley-ii-fall-2001-lc-assessment-workshop.html>
24. State Statistical Office of Macedonia. (2020, December 10). Gross domestic product of the Republic of North Macedonia in 2020 — Preliminary data. Retrieved from http://www.stat.gov.mk/PrikaziSooopstenie_en.aspx?rbrtxt=32
25. UNCTAD. (1964). *Proceedings of the United Nations Conference on Trade and Development* (E/CONF.46/141, Vol. 1). Retrieved from https://unctad.org/system/files/official-document/econf46d141vol1_en.pdf
26. UNCTAD. (1982). *The promotion of life insurance in developing countries* (TB/B/C.3/177). Retrieved from https://unctad.org/system/files/official-document/tdbc3d177_en.pdf
27. Wang, Y., Yang, S.-Y., & Chen, C.-W. (2022). The impact of directors' liability insurance on board meeting attendance. *Corporate Ownership & Control*, 19(3), 92–100. <https://doi.org/10.22495/cocv19i3art6>
28. World Bank. (2006). *Does insurance market activity promote economic growth? A cross-country study for industrialized and developing countries* (Policy Research Working Paper No. 4098). Retrieved from <http://hdl.handle.net/10986/9257>
29. World Bank. (2020). *Western Balkans regular economic report No. 18, Fall 2020: An uncertain recovery*. Retrieved from <http://hdl.handle.net/10986/34644>

APPENDIX A. TABLES

Table A.1. List of companies offering insurance, date started and the income revised since 2010

Activity	Until August 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Non-life insurance	9,166,077	10,942,175	10,229,270	9,225,229	9,693,668	10,912,852	11,110,565	9,023,884	7,467,674	7,640,270	8,043,580
Non-life insurance	6,174,966	8,905,808	9,766,683	10,822,204	12,365,255	9,845,276	9,993,411	11,625,907	9,912,885	5,477,116	4,563,647
Non-life insurance	8,328,675	12,078,357	10,544,608	9,606,958	10,529,217	12,507,252	12,411,808	10,933,857	9,264,092	8,400,585	7,533,918
Non-life insurance	5,726,948	9,882,316	7,668,098	6,917,935	6,810,098	1,813,009	-	-	-	-	-
Non-life insurance	4,032,131	5,852,174	5,602,049	6,263,396	6,809,558	8,090,088	9,332,876	8,413,065	7,764,453	6,783,474	6,567,133
Non-life insurance	5,814,683	10,132,109	7,809,545	8,199,476	7,929,414	7,876,619	7,769,456	7,855,609	6,977,631	6,996,092	6,559,520
Life insurance	1,660,246	2,338,989	2,097,835	1,858,366	1,707,168	1,529,045	1,625,557	1,423,562	1,236,313	1,040,580	1,236,526
Non-life insurance	7,559,129	10,355,645	9,416,086	8,312,839	7,128,584	8,073,035	8,891,548	9,697,381	11,264,406	14,991,755	11,238,857
Life insurance	723,459	961,376	856,497	636,650	761,793	910,595	338,738	238,858	165,087	5,000	-
Non-life insurance	3,515,231	6,318,508	5,525,970	5,107,604	5,731,710	8,375,718	8,295,184	6,533,317	5,410,681	5,519,609	4,048,742
Non-life insurance	6,448,125	10,070,844	8,710,384	7,357,119	5,431,911	2,308,299	-	-	-	-	-
Non life insurance	2,707,547	2,983,047	1,953,542	2,139,307	2,291,040	2,482,677	3,472,387	3,136,126	3,647,657	3,091,484	2,684,238
Life insurance	3,594,915	7,019,048	6,033,647	4,791,701	3,333,783	2,823,184	3,956,659	3,993,881	3,635,423	3,436,577	3,055,133
Total	65,452,130	97,840,396	86,214,215	81,238,784	80,523,199	77,547,650	77,198,189	72,875,448	66,746,303	63,382,542	55,531,295

Table A.2. List of companies offering insurance and the incomes taxes paid in the past 10 years

Activity	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Non-life insurance	334,730	512,439	461,261	483,998	543,721	552,581	445,778	369,393	370,242	405,648
Non-life insurance	336,450	489,511	541,360	619,555	504,506	474,710	673,845	495,681	275,569	228,607
Non-life insurance	386,688	527,457	481,297	527,125	625,908	621,307	546,369	464,048	421,244	376,590
Non-life insurance	303,073	382,939	347,112	339,876	90,590	-	-	-	-	-
Non-life insurance	76,100	278,779	311,755	338,978	407,041	462,279	424,003	399,649	356,827	328,243
Non-life insurance	297,073	395,142	410,489	396,484	397,324	388,503	392,792	350,959	351,702	335,271
Life insurance	98,336	104,836	102,207	84,639	76,395	81,302	51,346	81,524	52,204	35,244
Non-life insurance	300,178	472,637	417,245	356,090	294,978	444,577	497,697	563,220	811,542	716,187
Life insurance	47,254	42,825	31,832	38,088	45,530	16,937	11,943	9,406	250	-
Non-life insurance	63,730	137,035	253,448	286,685	418,290	414,693	328,216	270,524	276,234	201,646
Non-life insurance	314,226	435,510	367,694	271,809	115,355	-	-	-	-	-
Non-life insurance	71,516	95,641	107,019	114,426	123,689	173,259	156,806	193,050	152,579	133,963
Life insurance	194,730	94,418	237,063	163,289	141,311	196,302	196,574	180,731	176,251	152,766
Total	2,824,083	3,969,169	4,069,784	4,021,041	3,784,637	3,826,451	3,725,371	3,378,185	3,244,645	2,914,166

Table A.3. List of companies offering insurance and the VAT payments made in the past 10 years

Activity	Until August 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Non-life insurance	1,032,056	1,356,296	1,291,563	1,219,445	1,336,051	1,380,250	1,417,962	1,212,778	946,792	1,003,568	872,691
Non-life insurance	657,465	843,934	801,718	553,924	1,034,861	1,248,006	1,473,112	1,875,712	1,634,153	793,371	1,162,357
Non-life insurance	1,158,796	1,463,483	1,235,484	1,232,066	1,183,425	1,702,274	1,626,626	1,406,710	1,199,712	1,115,442	1,096,010
Non-life insurance	817,165	1,411,248	1,088,674	977,138	965,056	249,808	-	-	-	-	-
Non-life insurance	578,109	799,303	759,915	883,900	1,042,656	1,134,381	1,294,374	1,228,967	1,193,615	1,027,612	1,011,857
Non-life insurance	870,097	1,028,777	1,049,109	1,082,360	1,067,715	1,105,471	1,083,161	1,111,709	987,736	984,793	872,103
Life insurance	3,875	4,596	3,749	31,432	2,808	3,165	2,496	10,355	-	-	-
Non-life insurance	733,350	925,831	765,054	731,431	701,068	1,088,925	1,290,550	1,373,655	1,185,190	1,229,266	1,534,487
Life insurance	3,623	4,584	6,657	6,005	2,462	577	569	-	-	-	-
Non-life insurance	412,545	911,220	761,733	667,683	722,064	1,238,754	1,248,611	994,955	820,188	839,042	637,017
Non-life insurance	784,662	1,257,272	1,154,110	1,041,749	784,240	209,779	-	-	-	-	-
Non-life insurance	399,523	468,939	311,167	342,371	360,456	373,643	520,263	474,999	568,598	764,837	393,837
Life insurance	383,715	1,097,627	966,957	780,276	543,868	444,794	602,219	609,761	557,641	522,933	448,534
Total	7,834,981	11,573,109	10,195,889	9,549,781	9,746,730	10,179,826	10,559,943	10,299,601	9,093,625	8,280,864	8,028,892

Table A.4. Macroeconomic indicators and insurance sector assets

Indicator Unit	Total gross premiums US dollar, millions											
	Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Country												
Austria	26,438	-	-	-	-	25,084	25,102	21,091	20,647	20,485	21,880	
Belgium	42,982	39,735	39,209	40,872	41,936	37,521	38,345	30,746	30,432	30,839	33,703	
Czech Republic	8,191	7,562	8,167	8,764	7,846	7,998	7,608	6,173	6,002	6,402	7,052	
Denmark	32,505	-	-	33,844	32,745	225,775	37,098	31,997	33,498	37,549	40,976	
Estonia	-	344	566	561	617	774	839	764	815	924	1,092	
Finland	9,123	9,508	11,626	10,133	9,352	13,061	14,125	11,917	10,012	10,084	5,156	
France	279,451	302,185	297,324	289,082	258,641	275,750	294,033	250,873	314,251	314,319	338,708	
Germany	303,291	247,779	241,052	255,708	302,739	333,713	338,764	293,086	294,660	311,208	335,669	
Greece	7,811	7,244	6,954	6,893	5,781	5,407	5,056	3,964	3,908	4,213	4,485	
Hungary	5,145	4,081	4,053	4,054	3,377	3,582	3,584	2,991	3,146	3,484	3,767	
Iceland	474	277	382	415	404	419	444	420	487	611	652	
Ireland	87,328	46,847	45,313	44,591	45,586	45,314	52,557	48,802	54,182	49,821	48,129	
Israel	10,777	10,253	11,234	12,665	12,471	13,941	14,366	14,117	15,142	17,427	18,560	
Italy	144,169	167,509	169,910	156,982	138,232	161,161	193,455	165,854	151,423	150,732	163,781	
Lithuania	-	-	596	686	665	753	798	716	786	895	1,037	
Luxembourg	15,952	23,156	27,464	19,176	25,168	24,705	28,945	21,278	20,289	24,314	24,539	
Netherlands	71,889	67,436	52,450	58,654	51,267	51,142	48,603	37,399	77,358	80,465	86,997	
Norway	24,185	9,289	20,570	23,794	25,748	25,536	26,461	20,647	20,210	20,407	21,993	
Poland	24,641	16,475	17,963	19,289	19,231	18,307	17,412	14,539	14,213	16,495	17,211	
Portugal	22,605	19,806	21,066	15,642	13,559	17,003	18,667	13,945	12,079	12,941	14,868	
Slovak Republic	3,009	2,899	2,816	2,998	2,772	2,959	2,986	2,400	-	5,047	-	
Slovenia	2,864	3,033	2,888	3,039	2,816	2,808	2,783	2,386	2,416	2,596	2,863	
Spain	91,805	85,507	76,388	86,378	72,880	77,177	76,604	65,514	73,655	74,242	78,578	
Sweden	31,435	25,465	25,624	28,062	24,669	27,203	49,890	40,254	39,107	44,382	49,044	
Switzerland	57,047	57,191	61,637	71,482	70,214	74,264	74,480	70,367	67,483	67,772	69,456	
Turkey	9,051	8,455	9,971	10,247	11,399	13,212	12,314	11,775	13,718	13,074	11,333	

Source: OECD Stats.

Table A.5. Total premiums as % of GDP for region countries

Country		2014	2015	2016	2017	2018	2019
		Euro, millions					
Albania	GDP	9,969.4	10,264.2	10,719.2	11,561.2	12,821.7	13,653.0
	Gross written premiums	82.9	88.7	111.3	120.1	132.2	142.7
	Life insurance	7.3	6.1	7.1	9.0	9.0	9.9
	Non-life insurance	75.5	82.5	104.1	111.2	123.3	132.8
	Total premiums as % of GDP	0.8%	0.9%	1.0%	1.0%	1.0%	1.0%
Montenegro	GDP	3,457.9	3,654.5	3,954.2	4,299.1	4,663.1	4,907.9
	Gross written premiums	72.4	76.9	80.2	81.8	86.8	94.7
	Life insurance	12.6	12.9	13.7	14.2	15.2	17.1
	Non-life insurance	59.9	64.0	66.5	67.6	71.6	77.5
	Total premiums as % of GDP	2.1%	2.1%	2.0%	1.9%	1.9%	1.9%
North Macedonia	GDP	8,554.0	9,067.1	9,642.6	10,002.7	10,738.4	11,203.7
	Gross written premiums	123.98	134.66	141.65	145.97	161.24	171.97
	Life insurance	14.4	17.9	21.0	23.5	27.1	29.7
	Non-life insurance	109.5	116.8	120.7	122.5	134.1	142.2
	Total premiums as % of GDP	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%
Kosova	GDP	5,567.5	5,807.0	6,070.1	6,413.9	6,725.9	7,103.8
	Gross written premiums	81.39	79.85	83.42	86.89	92.14	99.28
	Life insurance	10.1	7.6	8.7	12.9	14.9	11.8
	Non-life insurance	71.3	72.3	74.7	74.0	77.2	87.5
	Total premiums as % of GDP	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%
Exchange rate	1 Euro= MKD	61.6	61.5	61.6	61.6	61.6	61.5
Exchange rate	1 Euro= ALL	140.0	139.7	137.4	134.1	127.6	123.0
Exchange rate	Euro/Dollar	1.3	1.1	1.1	1.1	1.2	1.1

Source: Instituti i Statistikave (INSTAT, http://databaza.instat.gov.al/pxweb/sq/DST/START_NA), AMF (<https://amf.gov.al/statistika.asp?id=1&s=1&r=1>), State Statistical Office (http://www.stat.gov.mk/Default_en.aspx), The Insurance Supervision Agency (ISA, <https://aso.mk/en/>).

APPENDIX B. QUESTIONNAIRE

Questions for financial directors of the companies:

1. For how many years have you been on the market?
2. Is your company with foreign or domestic capital?
3. Do you have offices outside the capital city, in other towns?
4. What is the total number of employees in your company?
5. Which are the main insurance products offered to companies?
6. Which are the main insurance products offered to households?
7. How do you usually approach the clients?
8. Do you have a marketing campaign for your products?
9. How do you see the market competition?
10. What is the approximate annual tax fee you pay to your state?
11. How do you see prospects for market development?
12. What actions should be taken for market development?