

THE DYNAMICS OF INSURANCE SECTOR DEVELOPMENT AND ECONOMIC GROWTH

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Abstract

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Through this paper, we were able to analyze the insurance system in Kosovo by looking at its structure, the degree of concentration of insurance companies in the insurance industry, and the types of products they offer. The analysis was based on statistical and qualitative data through the studies and analysis of insurance industry development in other countries. Furthermore, secondary data from the Central Bank of Kosovo, insurance companies, and the Insurance Association of Kosovo was used for the empirical analysis. Moreover, in order to obtain more data, one survey was conducted. The survey includes a more general audience, specifically employed people. The main research question of this study was whether insurance development has some effect on the financial markets in developing countries. The analysis conducted found that the insurance industry is important for the development of the financial markets in developing countries and also was mentioned in research by Cristea, Marcu, and Cârstina (2014). Additionally, the analysis for the case of Kosovo shows that macroeconomic and financial sector-related factors are important drivers for the future development of the insurance industry in Kosovo. Therefore, macroeconomic, institutional, and regulatory environments are crucial for supporting the future growth of the insurance industry in Kosovo.

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

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1. INTRODUCTION

The purpose of the study is to extract the important factors from the insurance companies' activity and their direct role in the economic and financial system development. The benefits of the insurance industry for the economy of each country have been discussed by many authors. Therefore, the topic of the insurance industry and its development in Kosovo is undoubtedly a very important one, in a nutshell, the insurance industry is as important as a country's financial system from an economic viewpoint. Insurance is defined as a cooperative device, aiming to spread the loss caused by

a particular risk over a number of persons who are exposed to it. Insurance neither reduces the risk, nor it alters the probability of risk, but it only reduces/speeds up the financial losses deriving upon the materialisation of the risk (Gulati, 2007). It is now known that insurance has been studied more by scientists in developed western countries, where the insurance industry dates back to early times and is more developed. According to The Grawe Group, "insurance" means any kind of payment agreement of the amount of money of a fund, which is formed by the payment of the premium by all those clients who are part of that type of insurance agreement. The Grawe Group points that insurance

can be viewed from two perspectives. From the individual perspective, insurance can be viewed as an economic instrument, which enables the individual to replace a fixed amount (small) of money for large losses and unexpected financial losses. From the company's point of view, insurance is an economic instrument, which reduces and avoids risk, while combining a sufficient number of the same risks. The Kosovo insurance industry has shown a relatively positive development over the last decade and has been characterized by ongoing reforms, especially the entry of new companies by offering new services. The research objective for this paper was to analyse the importance of the insurance industry for the financial markets in Kosovo. We found out, based on secondary data, that with a share of 2.8% in total financial system assets, the insurance sector is the fourth largest financial sector by size. The other objective was to investigate the effect of macroeconomic factors on the insurance industry in Kosovo. The findings showed that the penetration rate of 1.4% (gross written premiums in relation to GDP) is estimated to be relatively low, which remained almost unchanged in the last three years, mainly as a result of higher GDP growth versus written premiums in the insurance sector. Meanwhile, the density level, which represents the written premiums per capita, is 55.2 euros. The last objective is to ascertain the importance of the financial system-related factors (institutional, market, and regulatory aspects) for the insurance industry in Kosovo. This level has shown an increasing trend. The relationship between the insurance sector and other segments of the financial system is still weak, which minimizes the risk distribution options in other segments of the financial system of Kosovo. The strongest relationship of the insurance sector lies with the banking sector since around half of the assets of this sector remain in commercial banks in the form of deposits (Banka Qendrore e Republikës së Kosovës [BQK], 2022). The structure of the insurance sector continues to be dominated by "non-life" insurance services, while the remainder consists of the assets of the "life" insurance companies. The number of insurance companies decreased in June 2019 as a result of the withdrawal from the market of one "life" insurer and the liquidation of one "non-life" insurer. Consequently, the number of insurance companies was reduced from 15 to 13 insurance companies, of which 11 are "non-life" insurance companies, and 2 are "life" insurance companies. The supervisory and regulatory institution, the Central Bank of Kosovo, approves the licensing and supervision of insurance companies in the country, based on the existing legal framework. To gain knowledge about the establishment, progress, and development of these companies that are direct components of the insurance market in the country we have applied both research methods. Namely, the analysis was based on statistical and qualitative data gathered through surveys and secondary sources. The survey was focused on a more general audience, more specifically, consisting of employed people in Kosovo. The main focus of the survey was on the understanding of why do most Kosovo citizens not buy voluntary insurance. The questionnaire consists of eleven questions in total, with each of

the questions having four choice alternatives in order to clearly determine the required answer. It refers to the results obtained from our survey conducted with employees with a monthly income, which are or can be insurance buyers. The questionnaires were distributed to approximately 800 employees, but only 300 of them responded to the survey. The questionnaire was distributed electronically during the period of December 2019 and January 2020, to employees in various public and private institutions in Kosovo. Furthermore, secondary data was gathered from the Central Bank of Kosovo, insurance companies, and the Insurance Association of Kosovo, which will be used for the empirical analysis. 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 in increasing the number of purchases of voluntary insurance policies: life insurance, health, and so on. All of these helped us to reach the conclusions of the research results and objectives. We saw the measure of the development of financial markets may not be direct but the insurance industry performs a number of interrelated functions that also affect the financial system, such as compensation, accumulation, distribution, prevention, and investment. With regard to the compensation of function, the insurance industry provides insurance coverage to legal entities and individuals in the form of compensation in case of the realization of adverse events, which were the object of insurance. In terms of the accumulation function, savings are provided by life insurance, through which one is allowed to accumulate a predetermined amount against the concluded insurance contract. The other function is distribution, according to which the insurance industry implements an insurance protection mechanism. The essence of this function is the formation and intended use of the insurance fund. The latter is implemented in the system of insurance reserves, which provides a guarantee for insurance payments and the stability of insurance. With regard to the warning function, the insurance industry is expected to prevent an insured event and reduce the damage. Finally, the investment function is realised through the placement of temporarily free funds in securities, bank deposits, real estate, etc. All the above-mentioned functions are undeveloped in Kosovo, but this does not mean that these functions are not used or not active, since many services would not work. The functioning of the insurance industry affects the economy of a country in several ways. Although these topics have been discussed before, the following section will bring them all together to provide a clearer and more detailed overview.

The structure of this paper is as follows. The first section includes general information on the insurance market in Kosovo, the purpose, and methodology briefly. The second section includes the literature review, in developed countries where it is clear that this industry has an impact on the economic development of the state. The third section talks mainly about the insurance industry in Kosovo from its establishment until now. While the fourth section presents the methodology used to achieve the objectives of this study. In the fifth

section, a more detailed analysis of the data is made, reaching the results of the study and discussions. The last section includes the conclusions of the whole work and gives some recommendations.

2. LITERATURE REVIEW

An overview of various studies about the insurance industry and financial markets in developing countries shows that even in these countries, there is a positive impact of the insurance industry on economic growth, but at a lower level. The research conducted by the Insurance Association of Kosovo (2017) has come to the conclusion that both forms of insurance are developed: life insurance and non-life insurance, with the latter dominating the market. The insurance industry in Kosovo today is quite consolidated and has sufficient financial and professional capacities to provide various insurance coverage. This coverage offers protection to citizens and their businesses from different events, such as natural disasters or insurance on health, life, property, responsibilities, various accidents, etc. However, based on studies in Kosovo, which are few, and compared to studies of other countries, there are still challenges ahead to overcome, especially with regard to achieving services of higher quality, further enhancement of insurance policy offers and contemporary products, methods, and moving forward towards achieving European standards. Moreover, Muçaj and Kojku (2017) aim to unite the two main components of the insurance industry: the performance of companies and the consumer's perception of its service and quality. It is clearly observed that Albania is still in an early stage of evolution of the insurance market, while the Albanian insurance market is a mixed market, as there are many different non-life and life sector companies, with domestic and foreign capital (Muçaj & Kojku, 2017). In Kosovo and other countries of the region, the insurance industry remains not very developed compared to the insurance industry of developed countries, because it is mostly dominated by compulsory insurance and strong competition. Marijuana, Sandra, and Lime (2009) examine the link between economic growth and the insurance market development for 10 EU member states in transition, during 1992–2007. More specifically, the study aims to measure the impact of three indicators: life insurance, non-life insurance, and total insurance on several factors of economic growth, such as education, investment, bank credit, and stock capitalization. The main conclusion of this paper is that the development of the insurance market has a statistically significant and positive impact on economic growth (Marijuana et al., 2009). Kukaj, Morina, and Misiri (2019) have done the research for the Western Balkan countries with special emphasis on Kosovo, to investigate whether the insurance industry influences economic development. The study is based on secondary data published in official reports of the World Bank, Central Bank, and statistical agencies of several countries. The variables used are economic growth, life and non-life insurance, exports, investments, government spending, inflation, and GDP per capita. The methodology employed in this study consisted of the fixed-effects model, Hausman-Taylor regression, and the generalized moment method. The study concluded that life

insurance and non-life insurance have a significant positive impact on the economic growth of these countries. While other variables that have shown a positive result in economic growth are GDP per capita and exports, but the variables that negatively affect economic growth are inflation and government spending. Further, some studies have researched the impact of insurance on economic growth and the interaction of insurance and banking in promoting economic growth in the region of the former Yugoslavia (Njegomir & Stojić, 2010). This study used country-specific models in order to realize the fixed effects for the data covering the period 2004–2008. The main finding of the study is that the insurance industry has a positive effect on economic growth as a provider of insurance risk management and compensation and as an institutional investor (Njegomir & Stojić, 2010). Kjosevski (2011) researched the impact of insurance on economic growth using data from the period 1995–2010 in the Republic of Macedonia, using the OLS technique. This research concluded that the development of the insurance industry in Macedonia has a positive impact on economic growth. Such a result is confirmed in non-life insurance, while life insurance is found to have a negative impact on economic growth. The relationship of the insurance industry with the financial system is increasing day by day in developing countries, while in developed countries it is already known that there exists a positive relationship, due to several reasons. First, insurers are large investors in financial markets. Second, insurers often have close ties to banks and other financial institutions, and problems faced by an insurer can spread to the banking sector. Third, insurers contribute to maintaining the stability of the family balance and family sheets by insuring their risks (European Central Bank [ECB], 2009).

Following both theories and findings from previous studies, we propose the following hypothesis:

H1: Macroeconomic factors are important for the developments in the insurance industry.

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, Marcu, & Cârstina, 2014). In Kosovo, as an emerging economy, GDP growth should also be an important driver of the growth in the insurance industry, therefore one could expect a positive linkage. From our analysis we conducted for the insurance industry in Kosovo we came to the conclusion that the insurance industry in the country has had a gradual increase over years. Despite the recent developments (the insurance industry is now only twenty years old), new types of insurance policies have started to emerge. But even today, the market is dominated by compulsory insurance, i.e., auto liability and less developed voluntary insurance which are life and health. This situation depends on many factors, but among the most important turns out to be the low monthly income for the family, and the level of awareness or familiarity of the public with these insurance

policies. Therefore, we would expect that wage growth is another macroeconomic factor that could also positively influence the growth in the insurance industry. Islamov (2022) examines the content and role of the insurance industry in Uzbekistan, which is known to be a developing country, and the insurance market or industry has only been fifteen years old. Where financial analysis of insurance companies is done in general and it is seen that only 0.80 is share of insurance premium in GDP, there is a small number of employees while an excessive number of companies corresponds to developing countries. When there is an underdeveloped economy that compulsory insurance dominion. The other authors (Harun, Noor, & Abdul Rahman, 2018) have analyzed the importance of marketing in the insurance service industry, especially focused on complex services, such as life insurance. According to the results from the research, they have done more as a kind of revision of the existing literature that marketing affects the self-awareness and motivation of people to make a living. This analysis has been done mainly to inform the insurance companies that the right proportion, campaign, and marketing should be developed and attract customers. It would be good for insurance companies operating in Kosovo and in any developing country to be recommended such a thing as more marketing because it has to do with the sale and then selling a variety of insurance policies. Participation or the contribution of the insurance market to the financial system increases especially among these volunteers. Security Council Report (2016) confirms the link between the development of insurance markets and economic growth in some countries. In conclusion, insurance emerges as an institution of financial and social protection. Insurance companies, especially long-term investments, are the most important and most socially responsible investors, accounting for 8-12% of the total investment in developed countries and having an impact on continuous economic growth.

H2: Financial system-related factors (institutional, market, and regulatory aspects) are important for the development of the insurance industry.

The institutional, regulatory, and market-related factors provide the framework for the functioning of any institutional segment. Therefore, they are important for the development of any industry. In this view, we will explore the current situation regarding the insurance market in Kosovo and try to provide relevant observations on these qualitative aspects through the questionnaire on the insurance sector in Kosovo. From the overall reviewed literature and from the practice, it could be concluded that the insurance companies are among the largest investors, investing long-term capital into governments' securities and industry in general, which is their contribution to the financial markets development. Kosovo's insurance sector positively influences the banking sector development by holding a large portion of the assets at the banks, and also it provides support to the government securities market to some extent, where also a portion of insurance assets is invested. In this view, when we discuss financial system-related factors, we will discuss the issue of insurance in cases of banking-specific products and the contribution of the banks in the insurance sector development.

3. THE DEVELOPMENT TRENDS OF THE INSURANCE INDUSTRY IN KOSOVO

The history of insurance in Kosovo has a tradition of over 40 years. The insurance industry in Kosovo underwent changes, especially after the constitutional changes of 1974, when Kosovo was granted the right to be equal to other federal units in the former Yugoslavia and, as a result, the Property Insurance Association, based in Prishtina, was established. This organization with its activities has functioned according to the legislation of the time and it has secured all other business organizations which were one hundred percent state-owned, including the organization itself or the Insurance Community, as it was then called. The activity of this community, in line with the legislation of that time, functioned until the beginning of the nineties. From 1990 to 1999, with new legislation of that time in Kosovo, which was under measures of violence and classic occupation, in addition to the Kosovo Security Union, there were several other state-owned and private insurance companies, which were mainly engaged in vehicle insurance, in accordance with the legislation of the Serbian state. Such a situation continued until the beginning of the war for the liberation of Kosovo. After the war ended in 1999, Kosovo was put under the United Nations Mission in Kosovo (UNMIK) administration by the international community, with the aim of establishing and consolidating state mechanisms, including the insurance industry. The Kosovo insurance industry has experienced a relatively positive development over the last decade and has been characterized by ongoing reforms, especially by the entrance of new companies, which offered new services. The Central Bank of the Republic of Kosovo (CBK) in the capacity of the Regulator and Supervisor, has taken very concrete and welcoming steps, which were missing over the years, such as adopting the Law on Insurance and issuing about 14 vital regulations for the normal functioning and standardization of the insurance industry. This comes after a period of over 16 years of operation with poor regulations, mostly based on UNMIK regulations and, perhaps, two or three other regulations, prepared at a time when insurance was only mandatory, without adapting to the conditions and needs of the economy and industry. The supervisory and regulatory institution of the insurance industry in Kosovo is the CBK. In some cases, the insurance companies are supervised also by Kosovo Insurance Bureau (KIB), because Kosovo is not yet a member of the Green Card. But, it has established some cooperation or memoranda with neighbouring countries such as Serbia, Macedonia, and Albania. In these cases, the damages caused by the vehicles of these countries to the vehicles that have insurance in local companies, i.e., vehicles within the territory of Kosovo or vice versa. The KIB plays the role of the correspondent and supervisor for insurance companies in the country, ensuring regular maintenance compensation from the culprits, and for which requests a monthly report from the companies. The KIB activity is supervised by the CBK. In general, the CBK plays the main role in the insurance industry, which is responsible for the approval of the licensing and supervision of

insurance companies in the country, based on two laws: 04/L — 018 Law on Compulsory Motor Liability and Insurances and 05/L — 045 Law on Insurances.

3.1. Insurance industry and its macroeconomic and financial sector impacts

In this section, we will elaborate on the impact of the insurance industry on several macroeconomic indicators, and vice versa (the impact of macroeconomic indicators on the insurance sector assets). First, we can elaborate on the effects of insurance on macroeconomic indicators in brief. The insurance industry has a positive effect on employment, economic growth, stability of the financial system, the balance of payments, and ultimately the prosperity of people (Alizade, 2016).

- Insurance ensures employment growth in the economy. Mainly, in a developing country, one of the main problems in the economy is unemployment. In Kosovo, the number of unemployed people is increasing, especially recently during the COVID-19 pandemic. The insurance system will help in any way to solve this problem in those countries where large companies are located. As we have understood from the latest news, insurance companies like AXA, Lloyds, Allianz, and Aig have large branches in developed and developing countries where many people from different countries work. It is assumed that health insurance will increase this year due to the pandemic and the impact on people's understanding of how important health and life are, but of course, it is understandable that the increase in the insurance business (as in any business) will also increase employment.

- Insurance provides growing GDP. When people use or buy these insurance products, they pay insurance premiums to insurance companies and it is understandable that insurance companies use these premiums in the financial and investment activities of the economy. In this way, this process has a positive effect on economic activity. Insurance in developed countries has a bigger and more important role, it contributes to economic growth, efficient allocation of resources, reduction of transaction costs, creation of liquidity, facilitation of economies of scale, investment, and expansion of insurance. Also, it helps in the development of the service sector, agriculture, and banking insurance.

- Insurance has a positive effect on the stability of the financial system. Always referring to developed countries, there is a larger extent of the insurance industry in the financial system and we can freely say that insurance companies are a key part of the financial system. In addition, insurance companies also play a role in shaping the state budget because they are large payers of state taxes. Additionally, they invest a part of their assets in the Government securities market, too.

- Insurance affects positively the balance of payments. Insurance companies together with pension funds are the largest institutional investors in the stock, bond, and real estate markets. Their potential impact on economic development will rise rather than fall due to issues such as aging societies, widening income inequality, and globalization (Dorofiti & Jakubik, 2012). Globalization and cross-border operations could lead to a potential impact

on the balance of payments, considering the activity of insurance companies in the international financial markets.

- Insurance ensures the prosperity of people. Nowadays, people from different countries can use different types of insurance. This means that currently securing availability in the world is the best priority right. For example, in the modern period, people use different types of insurance, such as motor insurance, property insurance, life insurance, medical insurance, and travel insurance. All these types of insurance guarantee the safety and security of people, thus ensuring their availability worldwide. Guaranteeing or securing them positively affects the lifestyle they lead because security increases people's savings (Haiss & Sumegi, 2006). When people secure their wealth, their lives are under warranty, thus ensuring the prosperity of the people. Additionally, in each individual case, it is important to see the inverse relationship: how macroeconomic indicators affect the insurance business.

3.2. Insurance transfer risk

The primary role of insurance companies is to reduce risk in society through the pooling system of individual risk. It is certain that the simple act of risk insurance does not prevent an adverse event, however, insurance as a method of risk management generates several benefits. Policy holders reduce uncertainty, which then enables them to plan their work better. A firm can avoid a potential cash flow slump and a profit loss caused by insured losses. An individual can insure his own financial matters as well as those of his heirs, in the event of premature death. No person or firm intends to insure against any insurance risk. Insurance coverage is generally required for those risks where the losses are so unpredictable and large that their occurrence can be very detrimental to a firm or person. The greater the loss and its maximum severity, the greater the need for insurance. For example, a vase manufacturer is exposed to losses resulting from breakage during the delivery of goods to its customers as well as from fire in its factory. Given the fragile nature of its product, cracks can be so frequent that losses can be counted as a normal expense of the activity, but if you calculate and accumulate those funds after a few years, they will be enough to finance the construction of the factory after a disaster, or any change or renewal that requires time. This would be an investment instead of providing these funds somewhere if necessary. This way firms can operate more safely and with less finance than they would need. Insurance also helps you to develop your business, as firms can get money from banks and other institutions much easier and cheaper, because lenders are less exposed to the risk of losing the funds provided if they are insured. For example, small firms experience an improvement in their competitive position, as without insurance they would not be able to absorb losses of such magnitude. Insolvency, with all associated costs, is reduced because insurance money is available to finance the replacement of lost or damaged assets and to compensate workers and third parties who have suffered.

3.3. Insurance industry exposure to the risk of losses

If the possibility of insurance increases or decreases, the number and magnitude of losses that occur are questionable. When dealing with insurance, it is important to take into consideration the phenomenon of moral hazard, according to which the insured person can change his/her behaviour in terms of increasing the chances or occurrence of the loss or the outcome of the loss. Insurance companies encourage the policyholder in two ways to prevent or minimize the size of the loss. First, as long as the premiums are related to the potential losses of the insured, the policyholder is stimulated to prevent the loss, for example, by installing automatic fire extinguishing equipment, or by taking steps to save part of the property. Secondly, insurers often insist and then impose a condition or promise on the policy to continue the standards with which they have agreed in the contract, which is a precedent in the policyholder's right to claim damages. For example, before securing an anti-theft trader's goods, the insurer may insist that the trader installs the anti-theft alarm, and may impose on the policy a condition that requires the trader to regularly test this alarm and activate it whenever goes or leaves the location. From the perspective of the policyholder, if the loss from an adverse event is low, then it is better for the person to "self-insure". In some areas, such as insurance health, a mixture of both is often used. By agreeing to what is called a discount, the person agrees to insure himself for minor medical events, such as occasional visits to the doctor. The higher the discount is, the lower the premium is. While large medical expenses can be difficult to finance. On the one hand, the limited risk of very large losses can be certain, such as earthquakes, if they do occur, which can result in very large losses, as they will affect a large number of people at the same time. Often a form of government insurance in these types of areas is needed, as the risk is very concentrated and unpredictable for a private company to offer insurance against it. Insurance includes funds raised from premiums paid by many policyholders to pay for losses that a small portion of them will incur. Not all police officers will have an accident or get sick at the same time. The greater the number of people insured for the same type of risk, the more they can benefit from the "large number law" by dispersing their risk and lowering premiums for each individual policyholder.

3.4. Insurer's industry investment in the financial markets

Insurance companies are among the largest investors, providing long-term capital to governments and the insurance industry in general. In this way, they provide their contribution to the development of the financial market, which is the main focus of this paper. The assets that are mostly invested by insurance companies are the assets of life insurance companies, due to their long-term nature. Given the need for insurers to protect the value of their funds, meet the obligations to their policyholders, and increase the level of investment income, insurance companies traditionally have invested most of their funds in various stocks, such as government

securities, among others. Such investment behaviour is particularly relevant from a financial stability perspective since insurers are strongly interconnected with other financial intermediaries and play a key role in the long-term financing of the economy. For instance in European countries, more than 40% of euro area investment in bonds with maturity over 10 years is provided by the insurance sector (Rousová & Giuzio, 2019). Insurance companies in Kosovo have rules, which are defined in the regulation for the investment of assets, covering technical and material provisions as well as the investment of share capital of insurers of the central bank based on the Law 03/L-209. This regulation says that all insurers as a condition to be licensed must deposit and maintain at any time 3 million euros as capital share, the same must deposit and maintain 10% of the capital share in the CBK, while the rest of the capital share can be invested in following: deposits in commercial banks, licensed by the CBK, and not more than 20% of the capital share in a trust account in a commercial bank or in securities issued by the Government of the Republic of Kosovo, with the prior approval of CBK. According to the regulation, insurers are obliged to maintain the minimum level of equity throughout the insurance activity, not less than the amount of capital share (a minimum of 3 million euros). If during the insurance activity, insurers fail to maintain the level of minimum equity requirement, then the insurer shareholders are obliged to add additional capital in order to cover the capital shortages and bring the company to the required level of equity, within 30 days after the ascertained absence. Also, it is mentioned that they can make investments 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 not more than one year for non-life insurers, and with no limitations for life insurers. Thus, at the special request of the insurers and with the prior approval of the CBK, insurers can invest in the mentioned instruments, which must have a credit rating not lower than "BBB" from Standard & Poor's or the equivalent of this category from Fitch and Moody's.

4. RESEARCH METHODOLOGY

This study focuses on Kosovo as a developing country in transition, its insurance industry, and its effect on the financial system. To study this phenomenon, we used quantitative and qualitative research methods. For this purpose, we used the existing literature (in English and Albanian languages) and for the empirical analysis, we used data from national and international sources (Central Bank of Kosovo, insurance companies of Kosovo, Kosovo Insurance Bureau, Association Insurance of Kosovo, Council of Bureau and International Association of Insurance Supervisors). To clearly understand the reason for not buying voluntary insurance policies we have also made a questionnaire (that intend to do research with the same questions for the coming years). Since this research focuses on the relationship between insurance companies and the financial sector, the target population will include insurance companies in Kosovo, as well as the working population, i.e., having a monthly income (assumed to have

financial potential to buy policies to insurance, and having a middle age of 25–50 years, indicating that the respondent might have some knowledge or understanding of the importance of the insurance industry). The whole sector has 13 companies, which makes up the total research population for the survey. This is not a large population and may not require sampling procedures. The main focus of the survey was on understanding why the majority of Kosovo citizens do not buy voluntary insurance. The questionnaire consists of 11 questions in total, with each of the questions having 4 choice alternatives in order to clearly determine the required answer. It refers to the results obtained from our survey conducted with employees with a monthly income, which are or can be insurance buyers. The questionnaires were distributed to approximately 800 employees, but only 300 of them responded to the survey. The questionnaire was distributed electronically during the period of December 2019 and January 2020, to employees in various public and private institutions in Kosovo. The data collected from these sources was the subject of analysis using the usual quantitative statistical methods. The data used in this analysis cover the period since the year 2000, when the insurance industry began to develop faster in Kosovo, up to the current state of the insurance industry in Kosovo. All data and surveys are processed through the SPSS Statistics program for analysis purposes.

Unlike other firms that usually sell tangible products, and easily perceived services, financial firms deal with financial services and products. Any services and products related to finances are very crucial and sometimes associated with some risk. In many cases, the services and products from one arm of the financial services are interrelated, or their impact is interrelated. In this case, the activities of the insurance companies, or the services and products they provide it may have an impact on the other financial services, including banking and investments (Chen & Chang, 2005). As such, it would be fundamental to ensure that the insurance sector is successful and achieves the necessary impact on other subsectors of the financial industry. Therefore,

in this paper, the main research problem is exploring the effectiveness and ways of functioning the insurance sector in Kosovo and its contribution to financial system development.

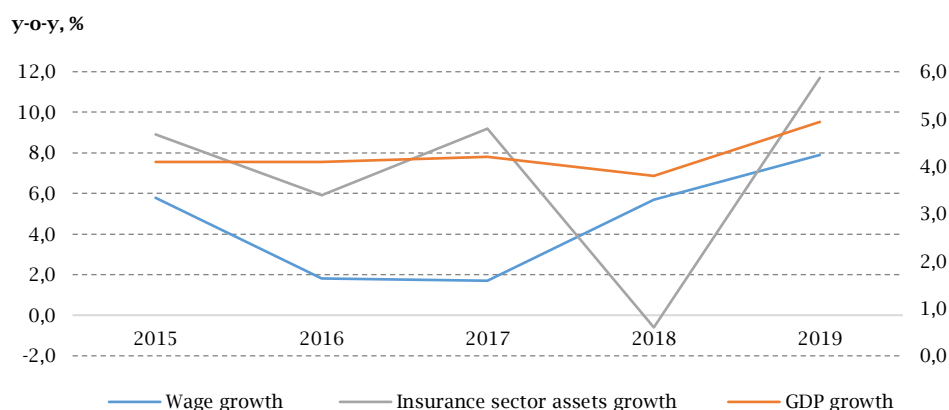
5. RESULTS

The results are one of the main parts of the paper, below the findings will be elaborated and commented on based on the hypotheses of the paper.

5.1. Analysis of the first hypothesis

The macroeconomic environment is an important factor in the insurance sector's development. The following graph shows the relationship between the growth rate of the insurance sector assets with real GDP growth rate and wage growth rate over the period 2015–2019 in Kosovo (the time horizon is affected by data availability). Despite the short time horizon taken into consideration, it is obvious from the graph that the time series of the GDP growth rate and the time series of the insurance sector assets show a positive relationship with each other. A positive growth rate in real GDP growth rate is associated with an even higher positive growth rate of the insurance sector's assets. When the economy of Kosovo grows at a lower rate, such as in 2018, by registering a growth rate of 3.8%, likewise the behaviour of the insurance sector assets worsens, by registering a negative growth rate. While in 2019, a pick-up in economic activity (by 4.94%) is associated with a significant pick-up in the assets of the insurance sector (11.7%). In contrary to the GDP growth rate, the time series of the wages do not seem to co-move very much with the time series of the insurance sector assets. In 2015, 2016, and 2019, both series move in the same direction, while in 2017 and 2018 they move in the opposite direction. A slowdown in wages in 2017 is associated with a higher positive growth rate in insurance sector assets while a pick-up in wages in 2018 is associated with a negative growth rate in the assets of the insurance sector.

Figure 1. The relationship between insurance sector assets growth and wage and GDP growth in Kosovo



The visual inspection provided by this chart is also supported by the correlation analysis between these indicators. The correlation coefficient measures the magnitude and the direction of the relationship

between two variables. As the table shows, the time series of the insurance sector assets is positively related to both the time series of wages and the GDP growth rate. However, as suspected from the above

graph, the strength of such a positive relationship is stronger in the case of the GDP growth rate (with a high correlation of 0.8), while the correlation with wages is low (at around 0.12).

Table 1. Correlation analysis

Variables	Correlation coefficient
Wages and insurance sector assets	0.12
GDP and insurance sector assets	0.80

Therefore, we can say that the macroeconomic environment is a very important factor for the insurance sector development. As the economy is growing, we can assume there would be a higher demand for insurance products. Additionally, we can expect that wages are an important factor in the demand for insurance products, but obviously, they are not the only factor affecting the insurance business. These observations are to some extent confirmed by the answers from the second survey covering the working population.

5.2. Additional analysis for the hypotheses: Results of the survey

The main focus of this survey was on why most Kosovo citizens do not buy voluntary insurance. The survey was conducted with people who work with a monthly income, and who are or can be insurance buyers. Thus, after reviewing the literature, and examining the various theories and methods, some conclusions were obtained and further elaborated based on data collection and analysis in SPSS Statistics software. The age of the participants in the survey ranged from 20 to 65 years old. Out of them, 63.3% of the participants were 20-35 years old, 31% of them were 36-50 and 5.7% of them were 51-65 years old.

The survey’s respondents had different professions, ranging from public administration employees to private sector employees (economists, lawyers, teachers, etc.). The declaration of the participants in the questionnaire for monthly income is reported from 200 to 800 euros. If we look at the percentage, the monthly income of 200-400 euros is reported by 30.9% of the participants; the monthly income from 400 to 600 euros is reported by 28.7% of the participants; the monthly income from 600 to 800 euros is reported by 22.3%, and the monthly income over 800 euro is reported by 18.1% of the participants.

5.3. Reliability analysis

Reliability analysis helps the researcher to determine if the questionnaire or any other data collection instrument is sufficiently reliable. In a way, this analysis after its extraction allows for the proceeding into other analyses, in which case the questionnaire’s validity is understood. Based on the results of this analysis, the questionnaire is highly reliable, at 0.820 (Cronbach’s alpha of 0.70 and above is good).

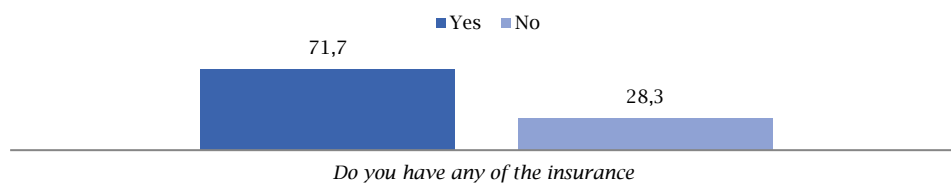
Table 2. Reliability analysis

Cronbach’s alpha	Cronbach’s alpha based on standardized questions	No. of questions
0.820	0.846	10

5.4. Frequency analysis

According to the question and the given options, the frequency analysis describes the data in the frequency range or by percentage structure.

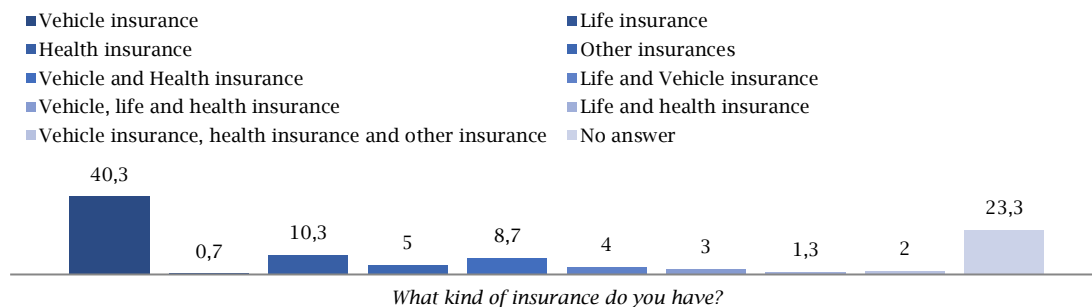
Figure 2. Respondents’ answers about whether they buy any insurance



Based on Figure 2, with regard to the question “Do you have any kind of insurance?”, 71.7% of the respondents answered that they have

an insurance policy. The remaining part (28.3%) reported that they do not have any kind of insurance.

Figure 3. Respondents’ answers about the insurance they have

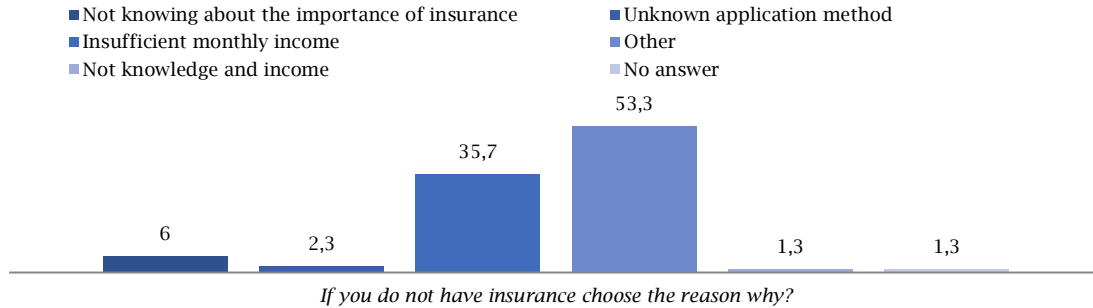


On the question “What kind of insurance do you have?”, about 40.3% of respondents report having vehicle insurance; 0.7% report life insurance; 10.3% claim to have health insurance; around 5% of respondents report other insurances, and 8.7% claim to have a vehicle and life insurance.

At the same time, 3% of respondents have a vehicle, life, and health insurance, and 1.3%

have life and health insurance; 2% report vehicle insurance, health insurance, and other insurance. Of all of them, 1.3% report that they have all insurance, but it is worth mentioning that 23.3% of respondents do not answer this question at all, given that they might not have any type of insurance.

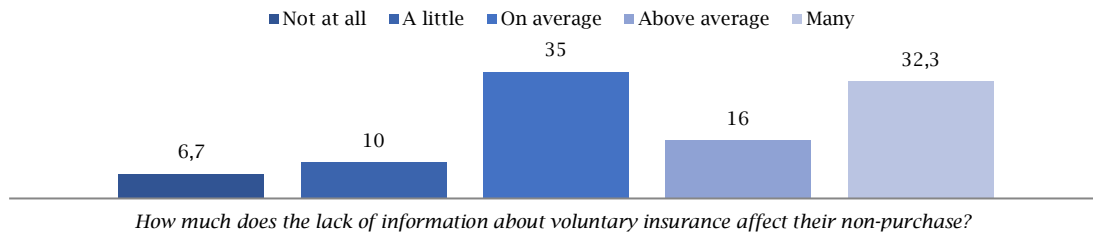
Figure 4. Respondents' answers about the reasons why they do not have insurance



Regarding the question “If you do not have insurance (life or health), choose the reason why?": Arena (2008) said that both insurances have an impact on economic growth but life insurance more, why because here it is noted that the state is at a good economic level and citizens can do life insurance or property insurance, etc. To our question, 6% of the respondents stated that they do not have insurance due to a lack of knowledge about the importance of insurance; then 2.3% of them responded they did not have sufficient knowledge on applying for different insurance; 35.7% reported

that they do not have enough monthly incomes, so they do not buy any insurance policy; 53.3% responded with other option, bringing out the different reasons why they do not accept the insurance; 1.3% report two options due to insufficient knowledge and low income, and finally, 1.3% of respondents do not answer this question at all. To wrap it up, the main reason for people not to buy any voluntary insurance policy is not having a sufficient monthly income, to be followed by their ignorance about these insurance policies.

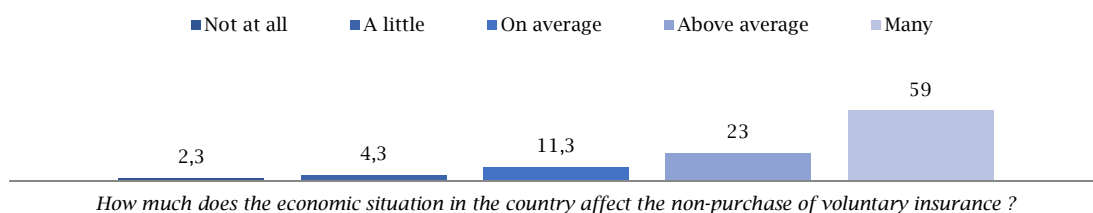
Figure 5. Respondents' answers about the effect of a lack of knowledge about the importance of insurance



On the question about the lack of information, around 6.7% of respondents indicate that lack of information about voluntary insurance does not affect their purchase at all; 10% of them report that lack of information can slightly affect non-purchase of voluntary insurance; while 35% of them respond with the option on average. Therefore, they believe that lack of information only averagely affects

the non-purchase of voluntary insurance. Further, 16% chose the above-average option, meaning that the lack of knowledge and information has a more than moderate effect on their non-purchase of insurance; and 32.3% of them state that lack of information greatly affects the non-purchase of voluntary insurance.

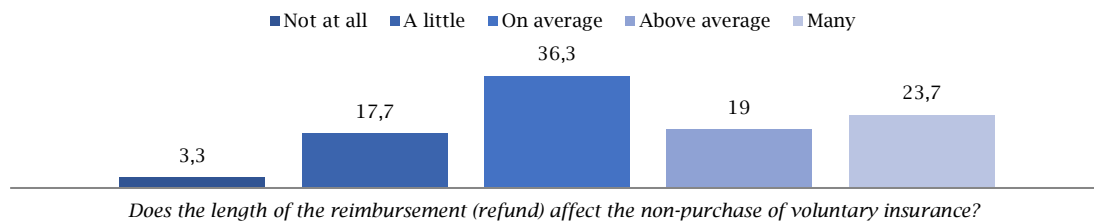
Figure 6. Respondents' answers about the economic situation in the country and its impact affect the non-purchase of voluntary insurance



Another research question, “How much does the economic situation in the country affect the non-purchase of voluntary insurance (other than compulsory motor insurance — motor vehicle insurance)?” was asked to help the researcher to understand whether non-purchase of insurance is motivated or discouraged by the economic situation in the country. About 2.3% of respondents report that their economic situation does not affect voluntary insurance at all; 4.3% of them report that their economic situation has little impact on voluntary insurance; 11.3% of them say that the economic situation affects on average not

purchasing voluntary insurance; 23% of the respondents report that the economic situation greatly or above average affects the purchase of voluntary insurance. The higher figure of 59% stands for the “much” option, pointing out that the economic situation has a high impact on a large population of people not purchasing voluntary insurance. Haiss and Sümegi (2008) are right in their research that countries that have better economic development, and higher monthly incomes, i.e., better wages, have more developed insurance because they are willing to buy different insurances.

Figure 7. Respondents' answers about the length of the reimbursement from insurance companies for people that they had or have insurance



With regard to the question “Does the length of the reimbursement (refund) affect the non-purchase of voluntary insurance?”, around 3.3% of the respondents report that the length of reimbursement does not affect voluntary insurance at all; 17.7% of them claim that the length of reimbursement may have little effect on not purchasing voluntary insurance. Of those, 36.3% of them responded with the option “on average”, affirming that the length of reimbursement may affect on average the non-purchase of voluntary insurance; and 19% and 23.7% of the respondents report that the length of reimbursement affects above average and greatly affects the non-purchase of voluntary insurance, respectively.

variables and the answers given by the respondents. In our case, the correlation analysis shows that there is a statistically significant negative relationship between the monthly income of respondents and the non-purchase of any type of insurance (most of the respondents report that their monthly income ranges from 200 euros to 400 euros and from 400 euros to 600 euros) where $r = -0.364$, $p < 0.01$. This is in line with expectations, according to which, increasing disposable income increases the purchase of voluntary insurance. Also, the result of this analysis shows that there is a positive statistically significant correlation that is the economic situation of the country and the purchase of voluntary insurance, and whether respondents have any of the insurance mentioned. In this case, $r = 0.281$, $p < 0.01$.

5.5. The correlational analysis

The correlation analysis helps the researcher to understand the relationship between the questionnaire

Table 3. Correlational analysis of questionnaire variables

Variable	1	2	3	4
1. Monthly income	1			
2. Do you have any of the insurance listed above?	-0.364**	1		
3. How much does the lack of information about voluntary insurance (life insurance, health, etc.) affect their non-purchase?	-0.011	0.014	1	
4. How much does the economic situation in the country affect the non-purchase of voluntary insurance (other than compulsory motor insurance — motor vehicle insurance)?	0.023	-0.001	0.281**	1

Note: ** Significant correlation at the level 0.01 (2-tailed).

5.6. T-test analysis

The t-test analysis helps the researcher to see the difference between the two groups. In this case, the difference between males and females, therefore, the variable shows the reason why they buy the insurance policy. Even with these results, t-test analysis helps the researcher understand the differences in the two groups' arithmetic mean.

Regarding reasons for buying insurance, for males, the average of 116 participants is 3.36, and for 180 females, is 3.46. There is no significant difference between the groups. Even the Sig. (2-tailed) score ($p = 0.339/316$) indicates that there is no significant difference between group averages (Sig. value is 0.26 within 95% confidence interval). It means that gender does not have any impact on the reasons for buying the insurance policy.

Table 4. T-test analysis of group statistics (Reasons for buying insurance)

<i>Gender</i>	<i>No.</i>	<i>Mean</i>	<i>Std. deviation</i>	<i>Std. error mean</i>
Male	116	3.36	0.936	0.087
Female	180	3.46	0.750	0.056

Table 5. Independent sample test (Reasons for buying insurance)

<i>T-test for equality of the mean</i>					
	<i>Sig. (2-tailed)</i>	<i>Mean difference</i>	<i>Std. error difference</i>	<i>95% confidence interval of the difference</i>	
				<i>Lower</i>	<i>Upper</i>
Equality of assumed variance	0.339	0.099	0.103	-0.105	0.303
Equality of variance not assumed	0.316	0.099	0.099	-0.095	0.293

Table 6. T-test analysis of group statistics (Types of insurance that they have)

<i>Gender</i>	<i>No.</i>	<i>Mean</i>	<i>Std. deviation</i>	<i>Std. error mean</i>
Male	118	1.16	0.489	0.045
Female	182	1.38	0.487	0.036

According to the results of the analysis, regarding types of insurance they have, the average of 118 participating males is 1.16 and the average of 182 females is 1.38. In this case, there is a very significant difference between the groups. Even

the Sig. (2-tailed) score ($p = 0.000$) indicates that there is a significant difference between the group averages (Sig. value is 0.000 within the 95% confidence interval).

Table 7. Independent sample test (Types of insurance that they have)

<i>T-test for equality of the mean</i>					
	<i>Sig. (2-tailed)</i>	<i>Mean difference</i>	<i>Std. error difference</i>	<i>95% confidence interval of the difference</i>	
				<i>Lower</i>	<i>Upper</i>
Equality variances assumed	0.000	0.218	0.058	0.105	0.331
Equality variance not assumed	0.000	0.218	0.058	0.105	0.332

5.7. Discussion

In the case of developing countries such as Kosovo, it is inevitable to discuss the problems that the country has during the transition. In addition to issues with the adaptation, the creation of laws, regulations, and institutions responsible for supervision until the opening of insurance companies, staff training, and finally, the launch of new products and awareness of the population for the importance of this industry takes considerable time and effort. This research study shows that in Kosovo, one main problem is not buying voluntarily insurance, especially for those falling into the low-income category. Another worrisome issue is that there is a large number of unregistered vehicles. These two factors are mostly hurting the insurance industry in the country. Unregistered vehicles are an issue that is seriously damaging the insurance industry and the state budget, is a high and unacceptable level of unregistered vehicles, respectively uninsured. The situation becomes more problematic when they are on the move. They are participants in traffic and endanger our lives and property, causing damage, which must also be paid by insurance companies with their contribution to the compensation fund. According to some market analyzes from the year 2010 until 2019, it is estimated that about 140 thousand unregistered/uninsured vehicles circulate on the roads of Kosovo, or 39% of vehicles in Kosovo circulate without registration and, consequently, without insurance (Conceatu, 2020). According to the CBK, 4.4 million euros in damages were paid by insurance companies in 2019 for unregistered vehicles. A large number of

unregistered vehicles in Kosovo has been and continues to be a problem, mainly due to high prices for compulsory insurance and the high unemployment in the country.

6. CONCLUSION

The insurance industry's central role is to act as an agent to deal with asymmetric information issues to improve economic well-being, and therefore to promote economic growth indirectly. The insurance industry in Kosovo is still underdeveloped. This finding is supported by the two main indicators that measure the development of such an industry in a country. Penetration, defined as gross written premium relative to GDP is 1.4%, while density (defined as gross written premium per capita) is 55.2 euros. These levels are the lowest in the region (excluding Albania) and compared to EU countries, Kosovo is lagging far behind. Being a small market, with a large number of insurers (insurance companies), there have been cases of unhealthy practices of activities by insurers. Insurance knowledge and quality of corporate governance have not been at the right level. Even from a regulatory/supervisory point of view, there has been no proactive oversight to guide the sound development of the insurance industry. However, after some years of operation, there has been a sufficient change, though gradual, which is typical for an emerging economy. It is evident that based on the literature, the insurance sector performs these basic functions: 1) facilitating capital transformation, 2) pooling of resources, risk hedging, efficient pricing, and 3) facilitating trade. It is widely accepted that

the insurance sector's success is tied to that of the entire financial system. The effect of the insurance industry on the financial market can be continuously researched taking into account the total assets of insurance companies and their extent in the country's financial system. After that, it is clear how much impact it has on the economic growth of the whole country. Insurance products are still considered luxury goods for people living in countries with low economic development, such as Kosovo. This was confirmed also from the survey that monthly income and economic situation are important factors when deciding whether to buy any insurance policy or not. Most people have one or two low salaries per family, which means that even if they know the importance of voluntary insurance, they do not have sufficient income to buy it. 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.

Some of the recommendations that should be taken into account by the responsible persons as well as by the institutions of the insurance industry. The insurance sector needs to pay more attention to financial sector analysis and macroeconomic policy because a well-organized insurance sector could be one of the vector catalysts of the socio-economic development of a country or region. The development of the insurance industry should be treated as a public benefit, as this is its mission. Like in developed countries, the insurance industry/companies contribute to the development of the financial sector and indirectly promote economic growth. Therefore, the relevant institutions of the insurance industry in Kosovo should undertake policies that aim to encourage insurance development, especially life insurance. The latter will allow insurance companies to mobilize significant stable resources to finance the economy through the purchase of financial assets. In the survey, we found that economic situation in the country is relevant in deciding whether to purchase insurance products. Therefore, improvement of the economic situation in Kosovo on a sustainable basis is crucial for the insurance sector prospects. Notably, there is the issue of lack of sufficient and fitting well-priced insurance products. The inclusion of bank insurance would be able to increase the services that are available to the market, as well as create and ascertain the relationship between the insurance and financial industries and markets. Bank insurance will not only ensure that the insurance companies have more clients, but they will also ensure that there is an increased partnership between these two industries, diversity in products, and marketing for popularising the insurance industry. The insurance industry in Kosovo needs to engage its capacities in three activities in particular in order to promote faster

development. First, it would be good to work more on informing and raising awareness among citizens about the importance of insurance. Secondly, to offer you the products you need the most and at more affordable prices, based on the average income that the country has. Finally or thirdly, to provide insurance through the bank because it would increase the impact more on the financial system and economic growth.

Since the beginning of this research effort, it was expected that our research would be limited or difficult to explore, for many reasons. Kosovo is a transition country, with low economic development, a low-income population, and high unemployment. Difficulties in finding data for previous years had a direct impact on the achievement of the goal through the ways we have chosen to design the study using relevant methods. However, we believe that the provided answers are relevant and enough to draw some conclusions. The other limitation that this study encountered is trying to understand some of the information provided by the respondents from the surveys. Some of the responses were hard to be understood and therefore used for further analysis. As a result, about one percent of all responses were discarded. This percentage was however insignificant to affect the results obtained from the data analysis process. We do not believe that there should be any other method that could be suitable to be used to investigate the subject of study other than the qualitative method of study which we have used. Qualitative research surveys are effective in obtaining relevant information to study the topic in question. Also, quantitative research by using statistical methods was used to identify the positive impact of the insurance industry on the financial system as well as to analyse the importance of the macroeconomic factors affecting insurance.

The importance of studying the financial system and industry in Kosovo consists of various organizations, regardless of the fact that the entire country and its economy are still in a stage of development. The slow growth of the economy and various industry players may not necessarily reflect the growth of their various interconnections and interactions. However, it is possible for the various players in the financial arena to interact, albeit to a limited extent. This research will present the issues that the insurance industry is going through and show that the growth of the insurance sector has a positive impact on the financial industry as a whole. There are not many studies on the insurance industry in Kosovo, therefore, this work will contribute to the development of literature in this field. This research is a direct asset for insurance companies because, with this paper, the reason why citizens do not buy voluntary insurance is clearly seen. Thus, it would be good for the companies to take it into account and increase their marketing, as well as release the prices for voluntary insurance to encourage the citizens. We believe that there is still room to work in this direction, especially now, when the minimum wage in the state of Kosovo is increasing with laws coming out slowly, the standard of living is increasing and consequently the number of voluntary insurances is increasing.

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APPENDIX

Table A.1. Non-life market in Kosovo (income statements), 2015-2019

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Income statement					
Earned premium, net of reinsurance	64,668,006	68,937,173	72,790,906	77,225,676	70,780,238
Gross written premium	72,655,888	80,889,158	84,192,393	89,117,163	87,982,532
Premium ceded to reinsurer	-8,616,937	-9,450,149	-9,149,897	-11,170,839	-12,662,560
Change in unearned premium	144,452	-2,970,008	-899,411	-1,761,929	-4,980,356
Reinsurer share in change in unearned premium	484,603	468,172	-1,352,179	1,041,281	440,621
Interest income, net	1,236,383	1,930,930	1,668,195	1,706,369	1,932,273
Other income	1,547,741	1,570,965	1,642,993	2,017,226	1,634,291
Total income	67,452,130	72,439,068	76,102,094	80,949,271	74,346,802
Expense statement					
Claims related expenses, net of reinsurance	37,744,912	53,432,347	27,517,586	37,867,850	39,479,213
Gross claims	30,953,280	34,232,271	40,796,378	42,821,450	42,947,095
Reinsurance share in claims	-2,373,844	-1,831,656	-4,355,944	-4,267,687	-7,454,595
Change in claims reserves	7,570,413	23,732,537	-9,703,670	-80,244	5,498,608
Reinsurer share in change in claims reserves	1,595,063	-2,700,805	780,822	-605,669	-1,511,895
Acquisition costs	6,805,364	9,517,299	7,929,087	10,327,185	9,112,945
Change in deferred acquisition costs	-818,100	-1,092,765	1,353,966	-754,948	-220,071
Administrative expenses	29,421,157	36,797,243	32,239,930	31,334,923	29,743,687
Reinsurance Commission	-1,673,742	-1,514,880	-1,238,374	-1,907,756	-2,516,244
Total claims and expenses	71,479,591	97,139,244	67,802,195	76,867,254	75,599,530
Tax	744,000	1,413,843	1,370,718	1,823,016	1,802,593
Profit/Loss	-4,771,461	-26,114,019	6,929,182	2,259,001	-3,055,321

Table A.2. Non-life market in Kosovo (balance sheet), 2015-2019

<i>Articles of the balance sheet</i>	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Assets					
Cash in hand and at bank	12,082,805	3,813,289	5,653,041	5,976,025	4,658,334
Bank deposits	71,910,111	86,044,810	87,214,297	84,946,404	78,886,525
Securities	5,849,931	9,139,143	7,583,932	10,015,215	12,841,082
Deferred acquisition costs	9,109,646	7,891,297	6,801,891	7,660,165	7,662,966
Receivables — Insurance and reinsurance	6,887,309	12,798,239	9,829,365	10,784,856	13,910,916
Reinsurance assets	13,986,876	6,465,236	16,216,130	18,250,894	16,192,186
Land and buildings	1,020,936	9,286,022	14,334,892	13,632,385	17,673,348
Other tangible assets	2,705,954	2,696,687	4,259,773	4,366,711	3,141,113
Intangible assets	365,262	392,637	519,492	513,604	1,116,339
Other assets	4,862,289	7,020,349	4,740,512	5,678,936	4,686,730
Total assets	128,781,119	145,547,709	157,153,325	161,825,194	160,769,539
Liabilities					
Claims reserves	51,975,560	80,887,522	72,436,840	72,685,524	65,572,881
Unearned premium reserve	29,497,556	33,692,504	35,612,627	37,260,073	38,124,588
Payable — Insurance and other	6,461,452	5,673,369	7,328,395	8,465,382	11,151,246
Loans	923,000	948,080	715,000	722,000	1,625,819
Other liabilities	2,357,765	4,369,259	3,842,693	3,689,159	4,478,035
Total liabilities	91,215,333	125,570,734	119,935,555	122,822,138	120,952,570
Equity					
Shareholder capital	44,280,850	61,180,449	72,278,782	72,842,890	65,112,760
Retained earnings	-1,594,450	-17,113,812	-46,323,337	-37,884,041	-24,486,826
Current year profit	-6,548,673	-26,114,019	6,919,182	-716,760	-1,716,265
Other reserves	1,423,000	1,914,843	3,274,267	3,567,702	2,319,419
Total equity	37,560,727	19,867,461	36,148,893	37,809,791	41,229,088
Total liabilities and equity	128,776,060	145,438,195	156,084,448	160,631,929	162,181,658

Table A.3. Life market in Kosovo (income statement), 2015-2019

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Income statement					
Earned premium, net of reinsurance	899,000	2,391,514	2,272,384	2,829,059	3,336,096
Gross written premium	911,000	2,454,776	2,345,366	2,952,721	3,454,989
Premium ceded to reinsurer	-	-35,258	-35,822	-59,264	-57,565
Change in unearned premium	-10,000	-27,710	-37,115	-72,326	-64,061
Reinsurer share in change in unearned premium	-2,000	-294	-45	7,928	2,733
Interest income, net	46,000	233,504	246,575	354,235	409,801
Other income	-	6,075	11,661	9,176	8,974
Total income	945,000	2,631,093	2,530,620	3,192,470	3,754,871
Expense statement					
Claims related expenses, net of reinsurance	-22,000	1,220,451	1,284,780	1,329,044	1,721,892
Gross claims	61,000	365,446	563,541	552,046	718,354
Reinsurance share in claims	-	-	-30,114	-	-
Change in claims reserves	-83,000	855,005	751,353	776,998	1,003,538
Reinsurer share in change in claims reserves	-	-	-	-	-
Acquisition costs	524,000	550,498	429,867	494,202	624,853
Change in deferred acquisition costs	-17,000	-2,108	5,023	3,572	6,390
Administrative expenses	115,000	409,348	308,229	631,147	796,148
Reinsurance commission	-	-	-	-	-
Total claims and expenses	600,000	2,178,189	2,027,899	2,457,965	3,149,283
Tax	46,000	122,639	133,869	147,836	145,336
Profit/Loss	299,000	330,265	368,852	586,669	460,252

Table A.4. Life market in Kosovo (balance sheet), 2015-2019

<i>Articles of the balance sheet</i>	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Assets					
Cash in hand and at bank	122,000	766,689	853,501	1,264,682	1,119,765
Bank deposits	2,715,000	7,365,000	7,762,123	5,065,994	5,576,872
Securities	1,390,000	3,521,419	6,414,921	8,730,455	9,404,645
Deferred acquisition costs	29,000	32,956	28,383	24,361	17,970
Receivables — Insurance and reinsurance	159,000	243,844	388,528	570,673	781,689
Reinsurance assets	-	18,438	18,393	25,322	29,054
Land and buildings	-	526,860	519,202	511,545	519,887
Other tangible assets	2,000	7,190	6,514	21,296	109,154
Intangible assets	-	11,271	8,531	3,651	18,528
Other assets	-	52,866	1,637,503	13,415	36,644
Total assets	4,417,000	12,546,533	17,637,599	16,231,394	17,614,208
Liabilities					
Claims reserves	242,000	4,217,131	5,419,095	6,198,118	7,199,632
Unearned premium reserve	52,000	190,958	308,568	380,894	444,955
Payable — Insurance and other	69,000	94,048	104,167	80,200	211,030
Loans	-	-	3,005,927	436	1,029
Other liabilities	-	136,684	210,114	222,512	174,429
Total liabilities	363,000	4,638,821	9,047,871	6,882,160	8,031,075
Equity					
Shareholder capital	3,500,000	6,785,893	6,785,893	6,785,893	6,785,893
Retained earnings	255,000	789,362	1,019,629	1,287,479	1,523,147
Current year profit	299,000	330,266	367,850	585,669	460,251
Other reserves	-	3,192	416,356	691,193	813,842
Total equity	4,054,000	7,908,713	8,589,728	9,350,234	9,583,133
Total liabilities and equity	4,417,000	12,547,534	17,637,599	16,232,394	17,614,208